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# China Report

ECONOMIC AFFAIRS

No. 141

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4 June 1981

# CHINA REPORT

## ECONOMIC AFFAIRS

No. 141

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## NATIONAL POLICY AND ISSUES

### HEILONGJIANG'S ECONOMIC READJUSTMENT EFFORTS

HK221244 Beijing JINGJI GUANLI (ECONOMIC MANAGEMENT) in Chinese No 4, 15 Apr 81  
pp 5-8

[Article by Yang Yichen [2799 2496 6591]: "Proceed From Reality and Readjust the Economy Well"--slantlines denote boldface]

[Text] The work conference of the Party Central Committee held last December adopted the important policy for further readjustment of the economy and for further political stability and unity. At present, this is the only correct economic and political policy. It is of far-reaching historical significance to resolutely implement this policy, basically eliminate "leftist" mistakes, uphold the four basic principles, put an end to the passive economic situation and guarantee political stability and unity. We in Heilongjiang Province are determined, under the leadership of the Party Central Committee, to proceed from our specific conditions to do a good job in readjusting the economy in a planned and orderly way.

#### /Good Beginning and Encouraging Step/

Under the guidance of the principle of readjusting, restructuring, consolidating and improving the economy that was put forth by the Third Plenary Session of the Party Central Committee, Heilongjiang Province has made remarkable achievements in readjusting its economy, with its unbalanced economy gradually improved and industrial and agricultural production steadily developing.

A series of the policies put forth by the party for rural areas have been further implemented and as a result, the agricultural structure has been improved, agricultural production has steadily developed and an overall development has been achieved in agriculture, forestry, animal husbandry, sideline production and fishery. The province was hit by serious natural disasters in 1980, yet it recorded a bumper harvest for the third consecutive year to fulfill and overfulfill the state grain production quotas and purchasing quotas. Output of industrial crops also increased by a large margin. Compared with the previous year, output of sugar beet increased by over 1-fold, oil-bearing crops by over 2-fold and flax by 72 percent. Diversified economic activities and commune members' household sideline production have developed and collective and individual breeding of cattle and sheep has also developed rapidly. Milk output increased by 17.2 percent and the number of sheep increased by 14 percent. The output value of forestry, animal husbandry, sideline production and fishery increased from 21.1 percent of the total agricultural output value in 1978 to 26.9 percent last year. Through

readjustment, the industrial structure has tended to become rational. Over the past 2 years, much work has been done to develop light industry, textile industry and sugar industry. The investments made throughout the province in light, textile and sugar industries and in capital construction last year were the highest in the history of the province and, consequently, light, textile and sugar industries have been able to develop quite rapidly. Light industrial output value last year was 16.3 percent higher than the previous year and the proportion of the light industry in all industry increased to 33.2 percent from 29.3 percent in 1978 and 30 percent in 1979. Output of some light industrial products increased by a large margin. The machine-building enterprises and the military industrial enterprises that did not have enough production tasks have been combined or shifted to producing light industrial and military products by readjusting the structure of their products and the orientation of their service. Up to now, more than 500 enterprises from different departments and regions and with different ownership have organized 181 mergers of various types by taking into account and according to their economic relations. Almost 100 heavy industrial enterprises have changed to producing light industrial products and textiles to expand the scope of their production. Some enterprises with poor management, high consumption and low quality products that resulted in losses have been suspended, closed or shifted to making other products. Measures were taken over the past 2 years to readjust the relations between "bones" and "flesh" and improve the people's standard of living in rural and urban areas that was neglected over the past few years. The income from collective distribution and household undertakings was on the average of 170 to 180 yuan for each peasant throughout the province last year (collective distribution was about 120 yuan and household undertakings was about 50 yuan), the highest figure ever recorded in the province. In urban areas, 40 percent of the staff and workers had their salaries increased. The salaries of the workers of the enterprises with the ownership by the whole people in 1979 were 8.4 percent higher than 1978 and in 1980 they were 11.8 percent higher than 1979. In the past, 80 percent of the funds raised by the province were used in production and last year the figure dropped to 42.8 percent; the amount used for investments in improving the people's standard of living increased to 57.2 percent. The amount of housing that was completed in the 3 years from 1978 to 1980 equalled the total of that completed in the 5 years from 1973 to 1977. The living conditions of some of the staff and workers have been gradually improved.

At the same time, much work has been done in restructuring. Measures have been taken in the trial expansion of the decisionmaking power of enterprises as well as in implementing the production responsibility systems at various levels. Due to these measures, enterprises have been able to remarkably increase their production and income. At the end of 1980, the 187 industrial and transportation enterprises that were approved for trial expansion of their decisionmaking power were reported to have increased gross industrial output value by 9.7 percent over the first half of the year, profits increased by 29.4 percent and the amount of the profits handed over to higher authorities increased by 20.6 percent to benefit the three sides, particularly the state. These enterprises paid their loans and from the rest of the profits they handed over 84 percent to the state and local financial departments, the remaining 16 percent was for their own use and most of that retained was used in improving production, the workers' standard of living and education, with 5 percent being given out as bonuses.

We have done certain tasks over the past 2 years in readjusting the economy, but still there are many problems and difficulties. The disproportionate relations between agriculture, light industry and heavy industry have not been basically solved and the capital construction front is too long. We have experiences in opening up the barren lands that are suitable for agriculture and in developing mechanization and these are two ways for us to increase the output of grain and industrial crops; but owing to policies we cannot but use these experiences later. In industrial sector, we have opened up a road for developing light industry, textile industry and sugar industry and with abundant raw materials and great potentials we can no doubt speed up the development of these industries. But because it is difficult to arrange investments and because of policies, this work also cannot be done at present. The readjustment of the machine-building industry is mainly concentrated on shifting to other lines of production and turning out various types of products; but it is an enormous and difficult job. Of particular concern are the great number of young people who have to be given jobs and the surplus workers of enterprises which have or will be closed, merged or shifted to other production also must be properly arranged. In addition, owing to the lack of consideration in the past, much work also has to be done to improve people's livelihood. It is apparent that we are faced with very heavy tasks in readjusting the economy.

#### */Proceed From Reality and Concentrate Our Efforts in Doing Five Points Well/*

It has been proved by practice over the past 2 years that the readjustment policy put forth by the Party Central Committee is totally correct and it accords with the conditions of our province. The basic reason for us to have been able to make achievements in readjusting the economy is that we are resolute in maintaining political unity with the Party Central Committee. In addition, in resolutely carrying out the line, principles and policies of the Party Central Committee we proceeded from the specific conditions of our province. Thus politically, we are identical with the Party Central Committee and we proceed from reality and these two are dialectically united. We must also be resolute in the further readjustment of the economy. In carrying out this work we must proceed from the situation of the whole country; the situation in our province is a partial situation and it is related to the national situation. This means that localities must obey the central government. With regard to the whole situation, we have something in common with the whole country and both are indispensable; but as a province, it has its own policies in readjusting its economy. Only if we carry out the party's principles and policies in line with this situation will we be able to readjust well the economy of the province in the interest of the whole situation.

Heilongjiang Province is an agricultural base of our country; this is coupled with the excellent conditions in agricultural production. In our province, there are a number of large state farms and vast forests, farmlands and ample water resources and all these provide good conditions for setting up modern and large-scale agriculture. Thus on the one hand, our agriculture is a big market for farm machinery and on the other hand, the development of agriculture, particularly the abundant products of grain, edible oil crops, sugar beet, flax and tobacco, will become ample raw materials for the development of light, textile, sugar and foodstuff industries. Natural resources such as timber, oil, wool, hide, reeds, sugar and dairy products abound in our province, providing good conditions for developing light industry. Therefore as long as we are skillful in our work,



light, textile, sugar and foodstuff industries will have ample raw materials. This situation is in the interest of developing light industry with intensive labor and the enterprises run by the people's communes and production teams. In addition, our province is a new base for raw materials for light industry and therefore the contending for raw materials among the enterprises in the province and between our province and other provinces will not be serious. The machine-building industry in our province is more complete and has more advanced equipment and a strong foundation. There are more than 4,000 machine-building enterprises with output value amounting to one-fifth for the total province. We must understand that there are many difficulties in changing the service orientation and the structure of the products, but we must also understand that the readjusted service orientation will play an important role. The machine-building industry is the technical and equipment base for various national economic departments. Therefore if we can readjust this base well, it will be able to display its potential and support local light, textile, sugar and foodstuff industries to raise in a big way the level of all industry. The number of urban residents and workers in our province ranks second in the country and total wages rank first. Our province also ranks first in the average income per capita for rural population. Such a large purchasing power creates pressure on the market but it is an impetus for developing production. Therefore as long as we are able to produce goods that are in demand, they will no doubt have good market.

In addition to the above-mentioned advantages in readjusting the economy, our province also has its own feature. That is, the number of capital construction projects in our province is limited and the dismantled projects are not many and, consequently, the proportion of such projects is little. The projects that should be dismantled must be resolutely dismantled while those that should be mounted must be carried out. On the whole, dismantling is not the core of our work. Readjusting does not mean "retreating" and the projects that are subjected to dismantling are mainly capital construction projects, particularly heavy industrial projects. On the other hand, we must continue to develop production and, in particular, we must develop and increase the output of agriculture, light industry, energy and electric power. We must also strive to improve the people's standard of living. All this work will help us to reach the goal of readjustment. Furthermore, our province abounds in raw materials for light, textile, sugar and foodstuff industries and these materials basically can be processed in the places where they grow or are developed. The processing capacity of some raw materials such as sugarbeet must be expanded in a big way. Therefore in carrying out readjustment, we must protect the medium and small enterprises that do not contend for raw materials with big industry. Our experiences over the past few years proved that the moves to concentrate on large projects and neglect the small ones, centralize everything without considering decentralizing, develop the enterprises of the ownership by the whole people while disregarding the development of collective enterprises and forbid household sideline production and individual production are not in the interest of developing coordination between specialized departments, carrying out economic activities, developing and building up towns and narrowing the difference between cities and the countryside. Following readjustment efforts, we will have more work to do to make arrangements for workers and staff and this work must be done well by providing more opportunities for employment. Excessive dismantling of projects will cause big problems in arrangements for workers and staff and will affect stability and unity. These problems will also affect the readjustment work.

Accordingly, the Provincial Party Committee has decided the following guiding ideology and tasks for the further readjustment of the economy this year: the related projects will be continued or canceled, capital construction will be curtailed, production will be developed and the people's standard of living will be improved so that we will be able to make steady progress in readjustment. Concretely speaking, we must implement the five points of "curtailing, shifting, merging, tapping and making up deficiency."

/"Curtailing"/ means to curtail the size of capital construction and it is a key task in carrying out further readjustment. The investments initially allocated for our province from state budget this year is 30 percent less than the previous year. The funds raised by various levels in the province for capital construction will be 50 percent less than last year. Some projects have to be canceled or postponed. Taking the situation and interests of the whole country into consideration, we must be resolute in dismounting the projects that should be dismounted and we can in no way do things that are beyond the reach of our financial and material power. Our guiding principle is that we have to cut down capital construction projects and, in particular, we must cancel the construction of those projects that were started blindly and that require a long time for completion. The key work in readjustment is to curtail capital construction; but some projects such as those related to energy must be continued. Some other projects must be carried out and these projects include opening up barren lands, farm mechanization and light, textile, sugar and foodstuff industries. The funds needed for these projects must be arranged well and used flexibly.

/"Shifting"/ means that machine-building and military industrial enterprises will be shifted to other production. This work is the key to readjusting industry well. During this readjustment period, some enterprises will no doubt be closed, suspended, merged or shifted to other lines of production. A great number of these enterprises will be shifted to other lines of production and only a few will be closed and suspended. The leading cadres, staff and workers of those enterprises that are closed and suspended must not be dispersed, on the contrary they must actively find ways to merge or shift their enterprises to other lines of production. Thus through readjustment, the situation in which the machine-building industry only serves heavy industry must change. Instead, it must serve agriculture, light industry and the markets and serve the technical transformation of various trades. It must also turn out the second and the third categories of products and advanced and high quality products and produce more mechanical and electrical products for the foreign market.

/"Merging"/ means to merge enterprises or to make them engage in joint ventures. We must take advantage of readjustment work and organize still better the productive force of the existing enterprises. The purpose of combining enterprises is to solve the problem of enterprises with small production, high costs, low quality and weak competitive position. Merger must be carried out according to reality and with various forms and contents. This work may also be carried out in a way of combining the production of good products and the products that are in short supply so that we will be able to increase output, improve quality and competitiveness and develop production to meet social needs. Last year we set up 181 integrated industrial enterprises that have consequently recorded remarkable increases in output value and profits. Practice proved that the merging enterprises is a road to survival and making profits. Through merging it is possible to promote

industrial readjustment, reorganize and change those large and small but versatile enterprises, realize coordination between specialized departments, form a new productive force, display advantages and overcome shortcomings and save a number of enterprises from being closed. In short, it is an effective way to prevent the closing down and suspending of many enterprises and to merging and shifting more enterprises to other lines of production. In the future, the "five small industrial enterprises" and the enterprises run by the people's communes and production teams and neighborhoods throughout the province must in the main take the road of merger so that they will be able to make progress and develop through merger and reorganization.

/"Tapping"/ means to tap the potentials of the existing enterprises. The growth rate of industrial output value in our province was not high last year, but we achieved improved economic results. The profits made by the industrial enterprises that were included in financial budget last year were 39.3 percent higher than the previous year and this achievement was made mainly by tapping potentials. These potentials are still very big. In 1979, 23.9 percent of the industrial enterprises throughout the country suffered losses and the figure for our province was 44.5 percent. Light and textile industries in our province are profitable, but the profits made by these enterprises were still much lower than average national level. The accumulation rate of light industry throughout the country was on the average of 31.4 yuan in taxes for 100 yuan output value as against 24.1 yuan in our province. The accumulation rate of textile industry throughout the country was on the average of 24.7 yuan in taxes for 100 yuan output value while the figure for our province was 15.9 yuan. Once our province is able to reach the national level, our local industry alone will be able to bring an additional 700 million yuan in taxes. This will be the difference and is our potential. We have decided that all the industry in our province will not have a rapid growth in 1981 but we will spare no efforts in improving economic results drastically. We will continue to restructure and reform the existing enterprises with improving economic results as the key goal, reform basic management work within enterprises, strengthen the management of planning and product quality of enterprises, strengthen overall economic accounting and strengthen staff training so that we will be able to make progress in gradually realizing the scientific management of enterprises and open up a road for improving economic results.

/"Making up deficiency"/ means to make up for shortages and fill in the gap. Our task is to make up for the deficiency in agriculture which is the base. We must resolutely implement the principles and policies that have been adopted by the Party Central Committee since the Third Plenary Session and they must be combined with the reality of our province so that we will be able to build a modern agricultural base with the overall development of agriculture, forestry, animal husbandry, sideline production and fishery and with producing grain as the key in our efforts to wrest a better and overall harvest this year. In readjusting the structure of agricultural economy we must persist in producing grain as the key so as to guarantee that grain production will steadily increase. At the same time, we must expand and develop the production of industrial crops and develop diversified economy. We must proceed from the features of collectivization, mechanization, specialization and socialization of the province and strengthen and improve the production responsibility systems of contracts by specialized departments and of joint production with payment. Another task is to continue to



develop light industry. We must continue to carry out the principle of the "six priorities" and mainly concentrate our efforts in turning out products that are in short supply, medium and high grade products and products for export. We must make full use of such abundant resources as grain, beans, sugar, dairy products, hide, flax, wool, silk, chemicals, reeds, timber and potatoes and actively develop light, textile, sugar and foodstuff industries. Particularly, we must do a good job in developing foodstuff industry with producing sugar as the key. The investment for the building of sugar refineries must be arranged well. We must also absorb funds from prefectures and people's communes to jointly build sugar refineries so that the locations of refineries will be rational and the construction can be quickened. The third task is to make up the deficiency in electric power. We must combine saving electricity and tapping potential with building new power-plants. In this respect, we must concentrate our efforts in completing as soon as possible the construction of the two power stations that are being carried out in the eastern and western part of the province and in addition, preparations must be actively made for the building of another powerstation in the central part of the province. The construction of some small hydroelectric and geothermal power stations that is near completion must be continued so that they will be able to generate electricity. The fourth task is to make up for a deficiency in the people's livelihood. This work includes improving housing facilities in towns, public utility, culture and education and commercial and service networks. Most of the funds raised by the province, various regions, cities and prefectures in the province will be used in these areas.

In order to further implement the principle of economic readjustment and carry out the above-mentioned five points it is imperative to stress the importance of centralized unity and to consider the whole situation of the country. As a province, we must bear in mind the situation of the whole country. The Provincial Party Committee has put forth the principle of "considering the situation of the whole country, sharing difficulties, displaying advantages and making greater contributions." Politically, our province must be as one with the Party Central Committee and, accordingly, it must abide by the leadership of the Party Central Committee and State Council. For example, we must fulfill the tasks of purchasing state bonds and lending money to the central government. When unity and centralization are being stressed, we must be careful not to swing to the other extreme to practice too rigid control. Once this happens, the decisionmaking power of cities and prefectures will once again be centralized again which will hamper economic activities. Once localities and enterprises are deprived of their decisionmaking power, we will be at a loss and will have no ability to continue doing the things that can quickly bring results or even bring big profits with small investments. We have suffered heavy losses in this respect.

Our provincial government must shoulder most of the tasks that are assigned by the State Council so that cities and prefectures will be able to retain more funds and to do more work of their own. This situation is also in the interest of the whole province. During the period of readjusting and restructuring, special attention must be paid to strengthening the overall balance of the whole situation and we must handle well the relations between displaying the advantages of our province and the overall national balance. We must, under the guidance of planned economy, regulate well the market and combine economic methods with necessary administrative measures and political and ideological work. We must also handle well the

relationship between readjusting and restructuring. Readjusting is the key and restructuring is the motive force and they interact and condition each other. Readjusting is in the interest of restructuring and the restructuring promotes readjusting and each is indispensable. Taken as a whole, in the past we did more work in restructuring than in readjusting. Now we are concentrating our efforts on readjusting but at the same time we must not neglect restructuring. Practice proved that the orientation of the restructuring carried out since last year is correct and we have made remarkable achievements. In the future, we must consolidate our achievements and expand the contents of restructuring. Speaking from the point of the whole situation, it is very important to stress the importance of centralization and unity and pulling cattle by the nose. It is imperative for enterprises and localities to have certain decisionmaking power because it means that the legs of the cattle have been unbound so that they are able to march forward. When unity and centralization are stressed and the cattle is being pulled by the nose, we can in no way amputate or bind the legs of the cattle because by doing so we will lose rather than gain and ruin the whole situation. Any restructuring that is in the interest of readjusting must be stepped up and any reforming that is contradictory to the present readjustment work must be postponed. This is the need of both readjusting and reforming. But localities and enterprises must in no way lose again their decisionmaking power in business and management.

CSO: 4006/326

## NATIONAL POLICY AND ISSUES

### ROLE OF STATISTICS IN READJUSTMENT

HK220735 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 4, 15 Apr 81  
pp 9-12

[Article by Chen Xian (7115 0341): "Readjust the National Economy, Strengthen Statistical Work"--slantlines denote boldface]

[Text] The great policy of the Party Central Committee on further economic readjustment and promotion of further political stability is a major strategy related to the success or failure of socialist construction in our country. Serious implementation of this correction policy is of extremely important significance on promoting the continued development of the national economy and overcoming present difficulties so as to lead the entire economy onto a path of healthy development and the smooth realization of socialist construction. Statistical work is an important part of the work of economic management. In carrying out economic readjustment statistical work must be realistically strengthened. This is the objective demand for economic development.

#### /Economic Readjustment Is Being Carried out Under the Best Situation/

After the 3d Plenary Session of the 11th Party Central Committee, the Party Central Committee put forth the policy of readjusting, restructuring, consolidating and improving the national economy. Because of the efforts of the masses of people, an excellent economic situation seldom seen before has emerged in our country. How is this excellent situation manifested? There are mainly four aspects:

/The first aspect is the increase in production./ Agricultural production in 1979 showed an increase of 8.6 percent over that of 1978, with the grain output increasing by 54.7 million jin. In 1980, the weather was extremely abnormal, with floods in the south and drought in the north. These had not occurred for many years. However, since the various regions implemented the series of rural economic policies formulated by the party and the government and further called up the production initiative of the broad masses of cadres and commune members in the countryside, the damages caused by the natural disasters were greatly reduced. The total agricultural output was not reduced, but showed a slight increase over the bumper harvests of 1979. Although there was a reduction in the grain output compared with that of the preceding year, it was still the second highest yield in history. There has been a great increase in industrial crops such as cotton, oil-bearing crops and sugar, the output surpassed the previous highest level in history. Industrial production in 1979 showed an increase of 8.5 percent over

that of 1978. Though there was a reduction of 2.9 percent in fuel output, industrial output still increased by 8.4 percent and there was an increase of 17.4 percent in light industry. This greatly surpassed the growth rate of heavy industry, which was 1.6 percent. The proportion of light industry in the total industrial output increased from 43.1 percent in 1978 to 46.7 percent. The internal industrial proportion has become more rational.

/The second aspect is an improvement in livelihood./ Owing to the developing in agricultural production and multiple management and the increase in the purchase price of agricultural sideline products and the increase in wages and bonuses, the livelihood of the peasants and workers over the past few years has greatly improved. The surplus money saved by peasants was 4.65 million yuan in 1977. In 1980, it mounted to 12.06 million yuan, a rather rapid increase of 7.41 million yuan in over 3 years. In the 4 years from 1977 to 1980, the country made arrangement for approximately 28 million unemployed youths and people. The average wages and income of workers in enterprises under the system of ownership of the whole people in 1980 showed an increase of 30 percent over that of 1977. While allowing for inflation, the rate of growth of the actual income of peasants and workers was also greater than before. With the efforts of over the past few years, we have basically stabilized the livelihood of the peasants, and there has been marked improvement in the livelihood of the majority of workers. It was not easy to achieve this in China with its 1 billion people.

/Third, economy has become flexible./ First, we have expanded the decisionmaking power of enterprises. Last year, over 6,000 enterprises of various kinds throughout the country had their decisionmaking power expanded. These pilot enterprises have generally developed production and increased their profits. According to preliminary data on these 6,081 pilot enterprises, there was a realized profit of 20.5 yuan out of every 100 yuan of industrial output in 1980. This was 23 percent more than the profit in these enterprises before the expansion of their decision-making power. Next, we have shown respect for the decisionmaking power of production brigades. We have implemented many forms of the production responsibility systems including calculated remuneration for joint production, allowed the production initiative of the broad masses of commune members, provided impetus to agricultural production and the development of multiple management. Third, we have improved the channel for commodity circulation. Under the guidance of state plans, many areas have enlivened the urban and rural markets through various forms of exhibition sales, commission sales, establishing ties between factories and shops, holding meetings on commodity interflow and open village fairs. There has been a great increase in the sale of the various commodities of food, clothing and household items. The total amount of retail commodities in 1980 showed an increase of 18.2 percent over that of the previous year.

/The fourth aspect is the implementation of thorough reform./ Economic construction has been harmed by "leftist" thinking for a long time. Since putting down rebellion and restoring order with the Third Plenary Session, we have adhered to the correct ideological line, and begun to rectify "leftist" errors. This is a fundamental task. With this task, our economic construction will turn from the passive to the active in the future, and there will be a realistic and steady development of our national economy.

Our assessment of the economic situation must be based on the principle of one dividing into two. We should see the good side while also soberly seeing the



unfavorable side. Seen from the angle of macroeconomics, there are still serious difficulties and latent danger in the national economy. This danger is basically manifested in large financial deficits which have occurred for 2 successive years, the excessive issuance of currency and the increase in prices of many products. According to our initial statistics, the index of retail prices throughout the country in 1980 showed an increase of 6 percent over that of the preceding year and the retail prices of sideline food products increased by 13.8 percent.

In light of these problems, the Party Central Committee and the State Council have opportunely put forth the policy of further readjustment of the national economy. This is a realistic and active policy and is absolutely necessary. In economic readjustment, what should be reduced should be sufficiently reduced and what should be increased should be actively increased. Temporary regression is for greater advancement in the future. By readjusting, we must strive to attain a basic balance in finance and credit loans and basically stabilize commodity prices. We must also strive to increase production and, in particular, the production of consumer products, reinforce economic accounting, reduce waste and improve economic results. Meanwhile, we must realistically control demands and attain a balance on all sides. This further readjustment of the national economy is not only for resolving current problems and eliminating the latent danger, but has a more active and profound significance. This is to gradually transform the present irrational economic structure so as to maintain a rational proportional relation between agriculture, heavy industry and light industry and accumulation and consumption, while integrating readjustment, reorganization and merging together to rationalize the economic organization and lead the national economy onto a path of harmonious and steady development.

#### /Statistical Work Must Conform to the Demands of the New Situation/

Statistics is not only an important weapon for understanding the conditions in our country but is also an important means for the state to guide the economy and social development. In promoting socialist construction and carrying out economic readjustment, we must reinforce the work of planning and economic management, and we cannot depart from statistics in our work of planning and grasping management. Just as Stalin pointed out, "No construction work, no work of the country and no work of planning can be imagined without correct calculation and no calculation can be done without statistics. Without statistics, calculation cannot advance further." ("Complete Works of Stalin," Vol 6, p 189) Following the further readjustment and gradual development of system reform, many new conditions will emerge in the national economy and the statistical departments are required to do a proper job in statistical reporting and fully develop the service and supervisory role of statistics. Then, what new conditions will emerge in the national economy?

/First, the economic structure will be further readjusted./ Because of readjustment, a large number of items under construction will have to dismount. Some industrial enterprises with large consumption, products of inferior quality and losses for a long time have to cease or suspend production, merge together or transform themselves, while some production departments or major products have to be greatly developed. There will also be changes in the relation between accumulation and consumption, agriculture, heavy industry and light industry and the industrial structure and the agricultural structure. The state needs to opportunely grasp the conditions of economic changes to maintain an overall balance.

/The second is the gradual development of the reform of the economic system./ There will be an increase in the decisionmaking power of localities, enterprises, communes and brigades. Under the guidance of state plans, the role of regulation by market mechanism will be developed. With the socialist system of public ownership as the basic form, the coexistence of many types of economic components will be limited. Financially, we shall "eat from different pots" and so on. These changes in the system will bring many new problems to production construction, allocation of capital and so on. With a flexible economy the state must reinforce its planned guidance of the macroeconomy. Statistical work must opportunely provide correct information.

/Third, economic results will be constantly improved./ For a long time, we have taken a road of "high accumulation and low efficiency" in economic construction, resulting in waste and excessive consumption, and we have suffered great hardships. In the future, the development of our economy has to take the road of "small investments and good results." The development of production does not mainly depend on the provision of a greater number of new projects or the establishment of a greater number of new enterprises, but mainly depends on the development of the potentials of the more than 300,000 existing enterprises, the implementation of the required renovation and transformation or reduction in consumption, improvement of economic results, increase in the production capacity and gradual improvement of the people's standard of living. We must then learn how to use the economic methods to control the economy and reinforce economic accounting and statistical supervision.

/Fourth, there will be an increase in daily international economic transactions./ Following the development of economic exchange with foreign countries, we need to strengthen the investigation and study of worldwide economics and carry out analysis and comparisons in order to opportunely understand the conditions of changes in worldwide economics.

These economic changes have put forth more and more demands on statistical work and it has also become increasingly more difficult. However, the present state of statistical work in our country is far from being able to meet these requirements. After the overthrow of the "gang of four," under the party and government leadership at all levels and efforts of the broad masses of statistical workers, despite a more rapid revival and development of statistical work, the evil consequences brought by the disastrous decade have not been entirely eradicated and the foundation of statistical work is still very weak. This is mainly manifested as inaccuracies in some statistical figures, rigidity in statistical methods, incomplete statistics on the overall balance and insufficient development of the work of analysis and study and so on. In short, there is still a great difference between the level of our statistical work and the requirements for objective economic developments. Under these conditions, the readjustment of statistical work should be reinforced. This requires a great improvement in the statistical method, in the level of statistical work, reinforcement of the statistical force and a realistic change from the backward conditions of current statistical work so as to meet the requirements of economic readjustment and construction for the four modernizations.



## **/How to Strengthen Statistical Work/**

Socialist statistics is an important basis for charting the policies and development plans for the economy and is an important tool for scientific management and inspection of the conditions of the implementation of plans in the national economy. The reinforcement of statistical work must start from the actual conditions in our country and meet the requirements of economic readjustment and the four modernizations and the requirements of strengthening economic management and improving planning work. In future, we should emphatically reinforce and reform statistical work in the five following aspects:

/(1) Strengthen statistical foundation work and increase the accuracy of statistical figures./ Statistical figures come from the basic level. If the statistics at the basic level is not sound, statistical work will be built on sand. Therefore, in order to obtain the correct statistical figures, it is first necessary to reinforce statistical work at the basic level. All enterprises and people's communes in the countryside must reinforce their statistical contingents, improve the system of statistical accounting at the basic level and reinforce the examination of statistical figures. Meanwhile, we must organize general examinations in a planned and methodical way and emphatically and thoroughly examine certain important statistical figures related to the conditions and strength of the country.

/(2) Set up a system of balanced, statistical auditing in the national economy./ In 1956, our country started to set up a balanced statistical framework in the national economy with the national income as the center. However, after the two big setbacks of the "Great Leap Forward" and "Great Cultural Revolution," overall statistical work in our country has been greatly weakened and the statistical indexes are very unsound. In order to meet the demands of economic readjustment and the four modernizations, we must start with the actual conditions in our country, learn from the good experiences of foreign countries and gradually set up a balanced statistical accounting system for the national economy. This system is mainly composed of five areas of statistics--the statistics on the national income, the statistics on investment and production, the statistics on overall financing, the statistics on people's properties and the statistics on international income and expenditures. This is a major construction item in the statistical work. With this system, we can more comprehensively reflect the whole process of circulation, distribution and consumption in the national economy, meet the requirements for strengthening the study of an overall balance and examining the economic results and provide the state with a basis for reinforcing regulation by planning mechanism in macroeconomics and greatly raise the level of our statistical work.

In setting up a system of balanced statistical accounting on national economy, we must at the same time strengthen and improve the various specialized areas of statistics. The specialized areas of statistics are the base. If specialized statistical work is not properly done, it is not possible to set up an overall, balanced statistical system on the national economy. However, if we take up the specialized areas of statistics and fail to emphasize the establishment of an accounting system of balanced statistics on the national economy, the specialized areas of statistics cannot be improved. The two complement and promote one another.

We must also grasp a work plan on the establishment of an accounting system of balanced statistics on the national economy. First, we must have uniform accounting standards. The standardization of statistical classification and statistical targets is the objective demand of the state in controlling and guiding socialized production and reinforcing the work of overall balance in the national economy. We must therefore gradually unify and coordinate the various standards of planning, statistics, accounting and enterprise auditing. Second, we must improve statistical methods. In setting up an accounting system of balanced statistics on the national economy, a large amount of statistical data is required. If we obtain all data entirely from general statistical reports, there will inevitably be a deluge of reports. Therefore, in addition to a further improvement of the system of overall statistical reporting, we must also actively popularize the methods of sampling investigation, single investigation, keypoint investigation and typical investigation so as to get general statistical data. In sum, statistical methods must be varied, flexible and appropriate. Third, we must reinforce economic analysis and study, strive to develop the strong point that the statistical department has in its possession a large amount of data on various aspects, start from the angle of macroeconomics and carry out an analysis and study of the major problems in the development of the national economy and the urgent problems in the economic readjustment at present.

/(3) Strengthen the centralized and unified leadership of statistical work and improve the statistical structure./ In order to properly carry out construction in the statistical undertaking and guarantee that statistical work is smoothly implemented, we must set up a strong and forceful centralized and unified statistical system as soon as possible, and realistically change the present backward conditions of a weak statistical organization and few workers.

Statistics work is exact, scientific and highly unified. Statistical work in thousands of basic-level units throughout the country must be carried out in accordance with a unified system, unified standards and unified methods of calculation before we can arrive at overall statistical figures which conform to the requirements in quality and quantity. Therefore, we must strengthen the centralized and unified leadership over statistical work. According to the regulations of the State Council, the various regions, sectors and units must implement the statistical system, methods and forms stipulated by the State Statistical Bureau. In addition to the fulfillment of tasks stipulated by the state, the statistical organizations of various localities and sectors must strive to accomplish the statistical tasks put forth by the government organs concerned.

There is a large volume and wide range of statistical work. Each important figure involves many households and has to be collected and analyzed by many people. Historical experience shows that if the statistical organization is not sound and the force is not sufficient, it is difficult to properly carry out statistical work. In accordance with the October 1979 decree of the State Council (the decree on strengthening statistical work and reinforcing statistical organizations), the various regions and sectors must set up and improve the statistical organizations as quickly as possible. The various statistical departments above county level must, within the year of 1981, restore the number of their personnel to the level of 1965. The statistical force of the people's communes in the countryside must be realistically strengthened. The various local sectors and local enterprises

and units of operation should also set up statistical organizations or recruit statistical personnel suitable for their work and tasks in accordance with the scale of operation and the work requirements.

/(4) Reinforce the work of training statistical cadres./ In order to enable the broad masses of statistical cadres to shoulder the heavy statistical tasks, we must reinforce the present work of training statistical cadres. The statistical organizations of the various regions and various sectors must actively create conditions, hold various types of training classes on statistical work and strive to hold at least one rotation training session for all the present cadres within 3 or 5 years. In the past year or two, in addition to a general reinforcement of the basic vocational training of statistical personnel at the basic levels, the leading cadres and vocational backbone in the statistical departments at all levels must study in groups the overall balanced statistics on the national economy and acquire relevant knowledge in the specialized areas of statistics and raise their vocational levels. The newly recruited workers generally should undergo vocational training for a short period. Meanwhile, we must actively develop academic statistical activities, reinforce the study of the science of statistics and gradually train a number of statistical workers of a higher level.

/(5) Devise statistical methods./ Statistical figures are related to the assessment of the results of a region and a unit. Some figures are also connected with the direct interests of cadres and the people. These relations of vital interests are often reflected in statistical work and they affect the accuracy of statistical figures. We must formulate "statistical methods for the People's Republic of China" so that our statistical work follows specific methods. Statistical workers will be protected in the discharge of their duties and this will guarantee the accuracy and timeliness of statistical figures and bring into full play the role of examination and supervision of statistical work.

Statistical work is related to the overall situation of the readjustment of the national economy and the four modernizations and shoulders great responsibilities. We must, under the leadership of the party and government organs at all levels, call up our revolutionary spirit and do a proper job with one mind. Ideologically, we must uphold the principle of seeking truth from facts and continue to wipe out the erroneous "leftist" influence. Politically, we must uphold the four basic principles and struggle against all actions which violate the four basic principles. In our work style, we must strengthen the work of investigation and study, improve our work methods, overcome bureaucratism and work realistically. Through the above efforts, we should develop the due role of statistical work in the readjustment of the national economy.

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## NATIONAL POLICY AND ISSUES

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[Article by Wang Jiye [3769 4480 2814] and Wu Kaitai [0702 0418 3141]: "Resolutely Grasp Readjustment and Stabilize the Economy"]

[Text]

I

In early 1979, after the 3d plenary session of the 11th Central Party Committee, the central authorities correctly analyzed the economic situation of our country and put forward the policy of readjusting, reforming, consolidating and improving. At the same time, it pointed out explicitly that the main tasks in these four respects, namely readjustment, reform, consolidation and improvement are not only interrelated but complementary, and that readjustment should be taken as the key link in making overall arrangements for our national economy. Practice over the past year or so bears witness to the fact that such a policy is sound and correct. China's economy is developing through readjustment. Agricultural production has been rehabilitated and the rural economy has been enlivened. Light industry which used to lag behind has developed faster than heavy industry. A more harmonious proportion between agriculture and industry, as well as between light and heavy industry has begun to take shape. The excessively high accumulation rate has been reduced and the proportion of consumption in the national economy increased; the market situation has turned for the better, the channels of commodities have been widened; and thanks to the raising of purchasing prices for agricultural and sideline products as well as the increase in salary of the staff and workers and the implementation of the bonus system, the living standard of the majority of the people has improved to a certain degree. At the same time, some enterprises have enlarged their autonomy, and regulation by market mechanism under the guidance of state planning has been introduced on a trial-point basis for products which occupy about 15 percent of the total output value of industry, thus the national economy on the whole is gaining new force and vitality. Generally speaking, the situation of our economy is fine. However, we must realize that the target set at the second plenary session of the Fifth National People's Congress is far from being attained and great efforts should be exerted to put an end to the serious disproportions in the national economy. This is mainly expressed in the following two aspects: First, accumulation and consumption surpassed the national income for the year; the investment allocated to capital construction by the state and various expenditures exceeded financial revenue. All this led to the overissuance of currency, a financial deficit and an unfavorable balance of foreign exchange earnings and expenditure. Thus, an unstable hidden

factor has emerged in the national economy as a whole. If no resolute measures are taken to reverse the trend, it will likely lead to further increase in prices and inflation as well as a vicious circle in economic development. So more attention should be paid to this serious consequence. Second, the scope of capital construction has exceeded the nation's financial capability. The scale of capital construction should be in conformity with the nation's financial power and material resources. This is the basic principle of economic construction that we should adhere to. Over the past 2 years, we have laid emphasis on the curtailment of capital construction and we have, in fact, cut back a lot of projects. However, due to historical and practical reasons which will be mentioned later in this article, the results are, in general, far from satisfactory. The scale of capital construction is still getting bigger and more difficult to control. At the same time, the inner structure of capital construction is seriously disproportionate. There are many projects in the processing industry, many long line [far removed from needs of consumers] insufficient raw material industry, few short line [closely related to needs of consumers] products and the capital construction of such departments as energy and transportation is weak. These two aspects make the capital construction front too long and cause it to engage in battles of attrition. If we fail to solve this problem, it will encumber our economy and seriously affect the stability of the national economy.

The only way to reverse the trend in the national economy is to resolutely grasp economic readjustment. Only when we get hold of readjustment can we fundamentally change the serious disproportions and lay a sound basis for future development. Provided readjustment is not grasped or is postponed, not only can enlarged reproduction not be carried out smoothly but even simple reproduction cannot be maintained. In the past, we neglected overall balance but pursued enlarged reproduction in a blind way, put undue emphasis on the development of heavy industry and disregarded the growth of agriculture, light industry, energy production and communications. In enlarging reproduction, we used to indulge in enlarging reproduction by extension but paid little attention to enlarging reproduction by intensification. We did not go in for enlarged reproduction within our capabilities after arranging simple reproduction in a down-to-earth way; on the contrary, we were chased after enlarged reproduction in disregard of or even by harming simple reproduction. In so doing, we failed to handle properly the relations between production and capital construction, between upgrading existing enterprises and building new projects in capital construction and between maintenance and manufacturing in the machine building industry. In socialist construction, we should arrange simple reproduction first and enlarged reproduction later. This is because generally speaking, simple reproduction accounts for fairly big proportions in socialist reproduction as a whole and has, to a great extent, a bearing on the scale of capital construction. In addition, the further expansion of the scale of production relies on the previous scale and productive capacity. Only when simple reproduction is kept going properly, can enlarged reproduction be laid on a sound and solid basis. To tightly grasp readjustment and stabilize the economy, we should first of all arrange well simple reproduction. Otherwise, we cannot manage to hold our ground and establish a firm base for further advance in the future. As far as our economic work is concerned, a longstanding problem is that we have done things beyond our capabilities and in disregard of actual conditions, thus bringing about serious imbalance in the national economy. The aim of readjustment is to resolve this problem. In a sense, readjustment means retreat.

sufficient retreat. By sufficient retreat, we refer to backtracking in some fields so as to be commensurate with our financial power and material resources and be more proportionate in our economy. To this end, the pace of economic development should be slowed down, the rate of accumulation should be lowered and the production of heavy industrial sectors such as iron and steel, chemical and machine building should be commensurate with the growth of agriculture, light industry and energy production. Generally speaking, readjustment means retreat, but such a retreat is for the sake of advance. That is to say, it is made out of tactical needs and is aimed at stability (stabilizing the economy). In so doing, we can achieve sustained and steady growth of the economy. Concretely speaking, the present readjustment consists of backtracking in some fields to make way for advances in others. The pace of economic development as a whole may not be very fast but the economic results will be much improved. We should cut back long line products, increase the supply of short line products and strengthen the weak links. Consequently, some products may be reduced but we can improve the economic results and produce more goods with better quality and variety. The results of readjustment depend on whether we can achieve an overall balance between revenues and expenditure, obtain credit balance, reduce or even get rid of foreign trade deficit and stabilize prices in the main. There are, of course, many difficulties ahead and strenuous efforts are needed to achieve such a goal.

Only by tightly grasping readjustment can we create the necessary conditions for carrying out further reform of the economic management system. Over the past year, the reforms applied to our economy have been correct in their orientation and have gained good results. A fundamental problem in our economic work is that little attention was paid to economic results. Both the macroeconomic and micro-economic results are poor and unsatisfactory. The fundamental way out for improving the economic results lies in readjustment of the economic structure and reform of the economic management system. Therefore, we should not waver with regard to the orientation of economic reforms. However, during economic readjustment, we lack sufficient conditions for carrying out our overall economic reform. We lack the material base for reforming the economic system as a result of financial deficits and serious disproportion in the national economy which is unstable as a whole. Only after the disproportionate relations in the economy are readjusted can the production units have the external conditions (such as energy and supply of raw materials) for enlarging their autonomy and can the way be paved for reforming the economic system on a large scale.

Only when readjustment is grasped well, can the living standard of the people be gradually improved on the basis of developing production and increasing labor productivity and the situation of stability and unity be consolidated. For a long time, our high rate of accumulation has affected the people's livelihood. Needless to say, it badly needs to be readjusted. On the one hand, this serious situation is caused by the orientation of investment which we used to emphasize. That is to say, excessive accumulation funds were channelled into heavy industrial construction, such as iron and steel, machine building and chemical projects. All this has given rise to a lopsided economic structure in which heavy industry is overemphasized and agriculture and light industry are ignored, thus failing to provide abundant consumer goods for people's livelihood; on the other hand, it is because we pay no attention to economic results, go after the scale of capital construction and blindly introduce foreign advanced technology and equipment in



disregard of the nation's actual conditions and financial power thus incurring heavy losses and great waste. If this problem is not solved through economic readjustment, it might be difficult to further improve the people's standard of living. Of course, the readjustment of proportions between accumulation and consumption is after all a matter of distribution of social products. Fundamentally speaking, to improve the livelihood of the people, it is necessary to make great efforts to raise labor productivity and promote socialist production.

## II

Since readjustment is so urgent and important and was put forward over a year ago, why has this principle of readjustment not been grasped vigorously? We hold that the main reason lies in the fact that our economic work has not been freed from the influence of "leftist" thinking. Therefore, in firmly grasping readjustment and stabilizing the economy, it is essential to be aware of the profound significance of the necessity for readjustment and earnestly eradicate the influence of "leftist" thinking. Therefore, in firmly grasping readjustment and stabilizing the economy, it is essential to be aware of the profound significance of the necessity for readjustment and earnestly eradicate the influence of "leftist" mistakes.

In fact, many factors account for the present disproportions. It is said that the imbalance in our national economy was caused by the 10-year turmoil of the "Great Cultural Revolution." This is not wrong. The damage done by the "gang of four" brought about disastrous consequences to the national economy and pushed it to the brink of collapse. This is a fact known to all. If we get back to the root of the matter, it is clear that "leftist" mistakes have all along existed in our economic work and reached their climax during the period of the "great leap forward" when the movement against rash advance was criticized in early 1958. As a result of indulging in impractical and high targets, a high accumulation rate, boasting that there should be breaches in planning, breaking up overall balance and continually reforming the relations of production in disregard of the development of the productive forces, figures for the economic growth rate were falsified, economic results ignored and amazing waste and losses incurred. Owing to a lack of democratic life, we failed to draw lessons let alone sum up experience from the high plane of the party's ideological line. Therefore, since the economic readjustment in the 1960's was basically completed, the tendency of being overanxious to make achievements and striving after things beyond our capacity has come to the fore. Again and again we committed similar mistakes to those made in the "great leap forward." This cannot but cause a serious imbalance in the national economy.

In the first 2 years following the fall of the "gang of four," we should, as a matter of fact, have given priority to the rehabilitation of the national economy and paid attention to economic readjustment. However, due to a lack of proper understanding of the aftereffects caused by the "gang of four" in the 10 years of turmoil, we were too optimistic to make a clear-headed appraisal of the situation. In addition, wrong decisions were made with regard to macroeconomic policy, impractical slogans and targets were raised and in 1978, another "great leap forward" movement was nearly launched. Thus economic development was adversely affected. Obviously, this is the root cause of the disproportions and financial deficits in the past 2 years.

Since the Party Central Committee formulated the policy of economic readjustment in early 1979, great successes have been achieved in economic work. However, in the last year or so, more consideration was given to the reform of the economic management system and the formulation of long term planning. Economic readjustment has not been grasped tightly with the result that the disproportions in the national economy have not basically been readjusted.

Recently, the Party Central Committee has decided to further carry out the policy of economic readjustment in an all-round way. This decision which gets right to the crux of the present economic work is entirely correct. To put into effect the policy of readjustment needs unified understanding from the whole party. In order to seek unity of thinking and policy and to keep in perfect step, it is essential to get rid of the influence of "leftist" mistakes in an earnest way. Only by so doing, can readjustment be grasped efficiently through to the end. It should be noted that even if the situation turns for the better, we should not be dizzy with success and go after things beyond our capabilities.

Over the past 10 years or so, the disproportions in our national economy have been characterized by a chronic disease which easily makes people insensitive to the necessity and urgency of readjustment. In the early 1960's, we encountered the situation in which the national economy had to be readjusted. The economic situation then was more or less the same as at present, such as the overextension of the scope of capital construction, serious imbalance between accumulation and consumption, between agriculture, light industry and heavy industry, short supply in raw materials, fuel and power, imbalance in finance, material and credit, shortage of market commodities, rise in prices and inflation. Needless to say, to put an end to such a passive state of affairs, we had to overcome many difficulties. However, the readjustment which was carried out in the early 1960's went on smoothly and gained good results. Why is it that we could do it better and faster in the 1960's but now we fail to grasp it efficiently and make slow progress? One of the main reasons is that we are not as fully aware of the significance of readjustment as we were then.

The disproportions in the national economy in the early 1960's brought about serious and multifaceted consequences. Agricultural output at that time dropped to the extent that people throughout the country suffered from hunger and capital construction came to a standstill. In the early 1960's instead of receiving any external aid, we were boycotted, sabotaged and dunned for payment of debts by foreign countries. Under such circumstances, if no readjustment had been made, the whole economy would have collapsed. The serious disproportions in the national economy forced us to adopt drastic measures and carry out economic readjustment. There was neither room for hesitation nor any other way out. Therefore we had unity in thinking, marched in step and achieved better results in readjustment. Now the situation has changed. Though there are serious disproportions in the national economy, they have in existence for many years like chronic diseases; as far as the development of the national economy is concerned, though agriculture and light industry have lagged behind for a long time, they have been rehabilitated in the past 2 years; and though the scale of capital construction has surpassed the national financial power, it still manages to drag on. Therefore, people have neglected to solve the shortage of material supply, which on the contrary was considered to be conducive to arousing the laborers' enthusiasm for production. In

addition, little attention was paid to financial deficits. Internationally, we have criticized the closed-door policy and gained possible support from extending trade with foreign countries and utilizing foreign funds, thus concealing, to a certain extent, the contradictions in our domestic economic development. Owing to the influence of "leftist" thinking, some comrades did not realize that they have been affected and apathetic. They were unaware of the disproportions which seemed to be not so conspicuous and acute as in the 1960's. In such a situation, it was not easy to continue the implementation of readjustment and many comrades failed to realize the urgency of readjustment. All this has prevented us from carrying out the policy of readjustment. It was not until this year when agriculture was seriously hit by natural calamities and energy production was reduced that the longstanding problem of disproportion revealed itself more clearly. People have come to realize that the disproportions are endangering the growth rate of the economy as a whole. Therefore, if no resolute measures are taken, the financial deficits which have been in existence for 2 years will affect the market and prices. Under such circumstances, we should not lower our guard and become careless. On the contrary, we should be fully aware of the significance of economic readjustment and grasp it more tightly.

### III

Apart from reducing administrative and operative expenses, the ongoing economic readjustment is aimed at curtailing and controlling the scale of capital construction and readjusting the orientation of investment. The major link in doing a better job in economic readjustment lies in gradually lowering the high accumulation rate and rationalizing the economic structure. It is justified to say that only when capital construction is calmed down can the national economy be readjusted properly.

Over the past year or so, though we have time and again decided to reduce the scale of capital construction, it has had very little effect. In 1979, the total volume of investment in capital construction was estimated to be 9 billion yuan less than the previous year. But in practice, the total volume in 1979 surpassed that in 1978. However, the measure of raising the income and bonuses of the workers as well as the purchasing prices for agricultural products were carried out without strict supervision and examination. Thus the state had to overspend by 4 billion yuan. As a matter of fact, if we cut 9 billion yuan from the original investment plan and increase the original plan for consumption by 10 billion yuan, state financial revenues and expenditures will be balanced. But in practice, the investment has not been reduced but increased and consumer expenditures surpassed the planned figure, thus resulting in a large deficit in financial revenue and expenditure and causing potential economic instability. As agriculture was seriously hit by natural calamities and energy production was reduced this year, it is difficult to achieve balance between supply and demand. Under such circumstances, we should resolutely curtail the scope of capital construction. However, no great progress has been made up to now. Therefore to reduce the scale of capital construction has become the focus of the ongoing readjustment.

There are many reasons why it is difficult for us to scale down capital construction. Generally speaking, in the case of capital construction, "it is easy to start a project and difficult to close it down." Some people feel ashamed to close



down a project once it has started. Thus many problems remain unsolved. On the one hand, we are considering lowering the accumulation rate but on the other, we decline to scale down capital construction. This is a sharp contradiction. However, quite a few comrades always intend to sidestep this contradiction by seeking another means to lower the accumulation rate. This will do nothing but postpone our readjustment and lead to deterioration of the national economy.

To curtail the scale of capital construction, we have to start with the following two respects: First, the major construction projects and the investment in capital construction which is included in the state budget should be put under strict control. At present, while reducing the investment in capital construction, the major projects surpassing the nation's capacities should be properly readjusted. It was reported that over 900 big and medium size projects were still under construction throughout the country in 1980, a slight decrease in number as compared with the end of 1979. But while suspending and postponing a batch of projects, new ones were put into operation. The former needed less investment but the latter much. In so doing, the total scale of capital construction is still too big. To complete the ongoing big and medium sized projects which are spreading out on too large a scale requires a large amount of investment. Obviously, this has exceeded the nation's financial capability. Therefore, an important task in reducing capital construction is to discontinue a great number of ongoing projects including those under preparation. Only curtailing the scale of capital construction for that very year and not reducing the construction projects means putting off the projects that should have been curtailed that very year until the next year. In so doing, no reduction in the scale of capital construction will be achieved. In the process of readjusting capital construction, it is utterly essential to readjust well the big and medium sized projects, especially those 22 projects which were signed in 1978 and in which complete sets of equipment were imported. As is known, the majority of these projects are related to heavy industry. They not only cannot make up for the materials in short supply (energy in particular) but have to consume a large amount of energy. This is not commensurate with our present capability of energy supply.

Second, to reduce the scale of capital construction, resolute measures should be taken to solve the problems of blind and duplicate construction and the small squeezing the big. Over the past 2 years, a two-level financial system (with the central and local authorities apportioning responsibility for revenue and expenditure) was introduced and autonomy was given to enterprises. Thus new problems cropped up in capital construction. "Funds can be obtained in different ways." Various channels of funds located in capital construction led to blind and duplicate construction. If this problem is not solved, the scale of capital construction will be overextended. According to statistics, the investment funds accumulated by the localities and enterprises accounted for 17.4 percent of the total investment in capital construction. Since reform of the economic management system was carried out on a trial-point basis in 1979, the localities and enterprises have accumulated more funds which constitute 21 percent of the total investment in capital construction. A considerable amount of autonomy was decentralized to the localities and enterprises but they lacked proper planning and effective measures. The localities are striving to increase financial revenues whereas the enterprises are seeking more profits. Both the localities and enterprises are contending to invest in the projects where the products are more profitable. Under this situation,

two problems arose. First, due to economic readjustment, state investment in capital construction has been reduced to some extent but the self-accumulated funds continued to increase. On the one hand, the higher authorities are cutting back the investment in capital construction and on the other, the localities are increasing it. In 1979, the state appropriated 39.5 billion yuan which was the same as in 1978. But the self-accumulated funds which were not covered by the state budget registered an increase compared with that in the previous year. In 1980, state investment decreased slightly while the funds raised by the localities and enterprises themselves went up consistently, exceeding the target of investment set and controlled by the state. With this tendency, the self-accumulated investment funds in 1980 will considerably exceed those in 1979. Second, the self-accumulated investment funds scattered in the localities and enterprises increased while planned guidance could not follow up accordingly. Unable to judge from the macroeconomic viewpoint, the localities and enterprises failed to make an overall consideration of the supply and demand of energy and raw materials, thus investment was arranged in a blind way and without overall consideration. This is a longstanding problem which existed for 10 years or so. But it has become more serious since the reform of the economic management system was introduced on a trial-point basis and the practice of regulation by market mechanism was carried out. It was said that about 2,000 production units throughout the country manufactured electric fans and over 100 units produced washing machines, refrigerators and air conditioners. People everywhere are trying to run small cotton textile mills, knitting goods, paper and tobacco as well as breweries. While the old ones are being consolidated, new ones have sprung up everywhere. Big factories are not running at full capacity and small factories and big ones for raw materials is very serious, and that between coastal and inland areas is even more acute. [sentence as received] Self-accumulated funds lacking planned guidance and control will lead to new disproportions, lower the economic results and cause waste and losses. None of this is advantageous to economic readjustment.

To control the scale of capital construction in a planned way, on the one hand, the guidance of state planning should be strengthened, overall planning made and overall balance maintained in macroeconomics. One should not go one's own way. On the basis of overall planning of finance, credit, the supply of material and labor force, the planning department concerned should work out an overall plan for capital construction to exercise unified management over the capital construction arranged by the central government and included in the state budget, the capital construction arranged within the overall plan and financial power of the localities, by the bank's loans and by using foreign funds. In addition, we should exercise unified management over capital construction and over other specific construction projects by using the self-accumulated funds of the localities. Meanwhile, the orientation of using capital construction funds arranged through various channels should be defined clearly according to graded management and principles conducive to economic readjustment. Those construction projects which are urgently needed and take a long time to complete and in which the localities and enterprises are not interested, such as energy, railways, harbors, and scientific and educational facilities should mainly be organized by the central government. We should let the localities invest in the projects which can give quick returns. In order to avoid blind and duplicate construction, we should strictly perform the procedure of capital construction, observe the system of examination and approval and carry out economic and technical feasibility studies.

At the same time, we should regulate the orientation of investment through economic levers and divert the funds raised by the localities and enterprises to the poor links of economic development or establish joint ventures between the localities and enterprises. This would be conducive to readjusting the disproportions in the national economy. For instance, we can collect taxes on capital construction. A low tax rate could be levied on the products in short supply produced by the state run enterprises and a high tax rate on those in excessive supply. According to similar principles, we can regulate the orientation of investment and the credit rate through the banks. In view of the above-mentioned principles, the reforms in the taxation system and banking system favoring the reduction of the scale of capital construction and prevention of blind and duplicate construction should be accelerated. Simultaneously, we should set up and perfect legislation and a strict system of economic and job responsibility. Those who approve new projects without authorization and broaden the construction scale at will and make great losses in disregard to the nation's needs should have their responsibility fixed by law and be subject to economic sanctions.

Another key link of doing a good job of readjustment is to put into effect the following policy: Enterprises whose products are of poor quality, whose energy consumption is high, whose products do not sell well on the market, and incur long-term big losses must be "closed, suspended, merged or shifted." Therefore, we should be determined to readjust the enterprises according to different conditions. Priority of the nation's limited energy and materials should be given to the enterprises which produce high quality products that sell well on the market and have low consumption. Only by so doing, can economic results be really improved and the steady increase of production be guaranteed. Meanwhile, the above-mentioned policy should be combined with the implementation of extensive coordination between specialized production and the development of economic complexes. Otherwise we cannot solve the problem of the capital construction front being overextended.

#### IV

Economic readjustment is the key link and center. During readjustment, reform of the economic management system should be carried out at a steady pace and in some respects, will have to be slowed down. Otherwise, reform will neither benefit readjustment nor be accomplished. This is because first the reform of the economic system is mainly to solve problems concerning the relations of production. In the process of reform, we should not only handle properly the contradiction between the old system and the new one and solve the problem of transition from the old system to the new one but also make reform suit the needs of the present stage of development of the productive forces in our country. It is true that reform of the economic system has played a great role in developing the productive forces and particularly in giving enterprises more autonomy and freed the enterprises from the shackles of the administrative system and divisions. All this has accelerated the development of the productive forces. However, the motivating role of the reform of the economic system belongs after all to the inverse role of the relations of production to the productive forces. In the final analysis, it is not the decisive factor. Judging from the macroeconomic viewpoint, the development of the social productive forces depends, to a great extent, on the development of the planned and proportionate arrangement of the national economy.



Only when the national economy is arranged in a proportionate way can we attain high speed. Whenever the economy is out of proportion, the growth rate is bound to drop sooner or later. According to the annual targets for industrial output value (not including brigade run industry), the nation's industrial growth rate is as follows: 14.3 percent in 1977, 13.5 percent in 1978, 8.5 percent in 1979 and about 8 percent in 1980 is expected. Though the annual growth rate is not low, the growth rate of industrial production has been declining due to economic imbalance. It can be seen easily that to maintain steady and sustained economic growth, it is necessary to properly arrange the major proportions of the national economy. This is exactly the problem which calls for solution in economic readjustment and also the demand of economic law in which the relations of production should fit the growth of the productive forces. The reform of the economic management system cannot go against this law.

Second, reform of the economic management system should be based on certain financial and material resources. No matter what the enterprises do--retaining a portion of the profits, assuming responsibility for their own profits and losses, reforming the tax system, regulating prices and carrying out other measures for reform--the state should have enough financial and material resources to support them. Owing to serious disproportions in the national economy and financial deficits, the state cannot afford to provide more money for carrying out reform. Of course, the implementation of the reform of the economic system can further bring the enthusiasm of enterprises into full play, promote production and increase income. But it cannot guarantee that the state can increase revenues simultaneously in a short period of time. Therefore the pace of reform should conform to the nation's financial and material resources. We should act in accordance with our capabilities and advance steadily. If the pace of reform is too fast, it will inevitably aggravate the imbalance between financial revenue and expenditure and enlarge financial deficits. Therefore, we should realize the serious consequences and guard against it. The reform of the economic management system is extremely complicated, involving every conceivable aspect of economic interests. In this respect, the general principle is that reform should benefit the production units at grass-roots level and the broad masses and let them enjoy economic interests. Without this, reform of the economic system can hardly succeed. Even if the reforms are made, they cannot last long. Thus only after we do a good job of readjusting the proportions and make the financial situation turn for the better, can reform on a large scale have a sound material base and be fully guaranteed by financial resources.

Third, owing to the extreme complexity of the reform of the economic system and lack of experience, various problems will inevitably crop up in the process of reform and may even lead the economy to fluctuate somewhat. Thus we should get prepared. Considering that there are disproportions in the economy and imbalance between finance, material and credit, the economy as a whole lacks the capability to withstand further twists and turns. Such being the case, the reform of the economic system may meet with great difficulties. Only when a good economic situation is created in which the economy has the capability to bear fluctuation, can reform be developed in an allround way.

Fourth, the expansion of enterprise autonomy requires external conditions. Viewed from the realm of production, if supply, production and marketing are imbalanced, productive capacity cannot be brought into full play and normal production cannot

be maintained. Under such circumstances, it is not the enterprises that should be responsible for not fulfilling the production plan, yielding poor economic results, gaining less profits and incurring losses. The autonomy of enterprises is bound to be restricted by the disproportions in the national economy and dislocation of supply, production and marketing. Viewed from the realm of circulation, to integrate regulation by planning mechanism with regulation by market mechanism, the means of production should really be regarded as commodities and allowed to circulate on the market. If disproportions are not readjusted, we cannot fully achieve this end. In addition, the scope of regulation by market mechanism remains very narrow. Many products that should have been put under regulation by market mechanism have to be placed under planned allocations, unified distribution as well as state purchasing and marketing. Otherwise economic life will run into chaos. At the same time, when the national economy is out of proportion, most of the commodities are in short supply, with the result that there can be neither real buyers on the market nor competition. The precondition for setting up a brisk market is to achieve harmonious relations between supply and demand, thus leaving room for buyers to select commodities. Generally speaking, at present, our market is a seller's one. To change this situation, basically speaking, we should carry out economic readjustment which will do away with the great discord in the national economy. Thus an economic management system that is adaptable to both regulation by planning mechanism and regulation by market mechanism can be established step by step.

To sum up, to tightly grasp the readjustment of the national economy is the precondition for carrying out the reform of the economic system. Economic readjustment will pave the way for large-scale reform of the economic system. In other words, it does not mean that all reform should be discontinued during economic readjustment. Some reforms which are urgently needed should keep going on a trial-point basis. Efforts should be made to reform the economy in a manner which is beneficial to readjustment. This is because the disproportions in our economy, on the one hand, are caused by erroneous economic decisions. For instance, we gave priority to developing heavy industry one-sidedly, "took steel as the key link," pursued high targets, high accumulation and high speed; on the other, they are directly related to our overcentralized economic management system. Take the financial system for example. Because of practicing the system of taking up funds without compensation, every locality, department or enterprise tried every means to contend for investment so that there was "contention in the annual plan" but no economic responsibility was taken for the investment obtained. In this process, light industry and agriculture which have little influence and few departments failed to match heavy industry. In this way, the poor links of the national economy such as agriculture, light industry, energy and transport and communications could not be strengthened, causing the economy to develop lopsidedly. Take the price control system for another example. The prices fixed for agricultural products and minerals have been low for a long time, with the result that these departments can hardly develop, and are unable to meet the needs of the development of the national economy as a whole. Take the planned management system as another example. We have carried out for a long time a sole mandatory planning system. The production plans of enterprises are arranged by the higher authorities in a mandatory way and total output value is regarded as the main planned target. This method encourages the enterprises to one-sidedly pursue value and go in for production that is not in accordance with social needs, thus aggravating disproportions. In

the other system related to material management, labor and wages, there are many problems which are not beneficial to bringing into play the enthusiasm of the enterprises and laborers for production and to readjusting the disproportions. So reform of the economic system should continue but should benefit and promote readjustment. Those reform measures conducive to readjustment should be carried out energetically. There may be three different cases. First, measures which have been proved to be advantageous should be carried on without delay. For instance, instead of the state, the banks are given the power to appropriate capital construction funds. This can encourage capital construction units to pay more attention to economic results and to strive to save funds and reduce irrational investment. The trial-point expansion of enterprise autonomy has achieved good results. It has raised the initiative of the production units and laborers, promoted the increase of revenues and cut down expenditures. So has regulation by market mechanism. Without practicing regulation by market mechanism, the engineering and electronic industry would be in a wretched state. Another case is those measures which are more harmful than advantageous. Why was there so much duplicate and blind construction? We hold that to a certain extent, this is related to the implementation of a two-tier financial system and due to a lack of understanding about bringing superiority into full play. The loss of control over negotiated purchasing and selling prices add fuel to the flames to price increases. There are malpractices in this respect. Yet another case is those measures which have a dual nature, both advantageous and disadvantageous. Bonuses are actually rewards for excess labor. Due to the lack of a series of adequate measures, there occurred some arbitrary distribution of bonuses detrimental to the planned control of consumption funds. Therefore during the reform of the economic system, we should pay attention to both the advantages and disadvantages of every measure, adopt some measures including transitional ones to give full scope to their active role in promoting readjustment and get rid of their malpractices. We should make good use of advantages and avoid disadvantages. In short, during readjustment, every measure and step should be conducive to readjustment and become its promoting force. As far as reform of the economic system is concerned, we should never adopt any measures which will hinder the implementation of readjustment.

## V

In firmly grasping readjustment and stabilizing the economy, centralized leadership should be exercised on the part of macroeconomics, regulation by planning mechanism should be strengthened and a good job should be done in achieving an overall balance. In directing economic work, we cannot move a single step without an overall balance. This is particularly so in the period of readjustment. Currently, state finance is in the red. Apparently, financial expenditure has exceeded financial revenue. The latter cannot catch up with the former. In essence, the financial deficit lies in the fact that financial expenditure has exceeded the national income. In other words, the appropriations for capital construction and consumer expenditures have surpassed financial revenue. At present, this is the hidden trouble in our economy. One of the aims of our ongoing readjustment is to eliminate the financial deficit. In the final analysis, we aim to achieve the balance of the national income, accumulation and consumption. As for accumulation, it is particularly important that we should suit the scale of capital construction to the nation's financial and material resources and avoid including in capital construction with deficit financing. As far as consumption is concerned, it is necessary to do a



good job of achieving market balance. If the increase in the supply of commodities cannot keep up with the increase in the amount of money in circulation, inflation and price rocketing may emerge. In recent years, the market situation has been fine, but there is a hidden trouble which finds expression in the tendency for the proportion between the amount of money in circulation and the actual volume of retail sales of commodities to decrease. This is endangering market balance. Without market balance, prices are bound to fluctuate. From the macroeconomic viewpoint, market balance hinges on financial balance and in the last analysis, financial balance is determined by the balance of accumulation, consumption and the national income. In the process of economic readjustment, if we fail to achieve the aforesaid balances and the relative balances of credit and foreign exchange, we cannot stabilize prices and fundamentally eliminate financial deficits.

As for the realm of production, to accomplish material balance, we should leave no breaches in material planning. According to the balance of materials in short supply, that is to say, the supply of energy and raw materials, we should arrange and coordinate the production plans of various departments. In this way, a certain economic growth rate can be maintained. Only if an overall balance is achieved, can we take the initiative in economic work. In this case, there is nothing to be afraid of, even if the economic growth rate is rather low. Otherwise, with breaches in material planning, even if we set high targets, we will never be able to fulfill them and on the contrary, economic development will be hindered.

Economic readjustment has brought about a new situation and set new demands for an overall balance. To date, we have not studied sufficiently and not yet found adequate solutions for gaining overall balance and strengthening the planned guidance. With more power in hand, the enterprises and localities all have great enthusiasm and initiative. The results are obvious. But how and where to spend their money remains a problem. Restricted by their own objective positions and interests, once lacking the guidance of state planning, it is difficult for the localities and enterprises to avoid blindness and going against the needs of macroeconomic policy. The individual active operations of thousands upon thousands of business units related directly to production cannot naturally ensure the coordinated development of the national economy as a whole and the best macroeconomic results. On the basis of the former irrational economic structure and industrial structure, if every economic unit is allowed to bring its enthusiasm into full play, things will get even worse. In order to ensure the coordination of the proportion of socialist production and the improvement of macroeconomic results, on the major problems which have an impact on the overall situation, we should strengthen the guidance of state planning and regulation by planning mechanism, keep them constantly in balance and promote the sustained and steady development of the national economy. This is a fundamental issue that will ensure the superiority of our socialist economic system over the capitalist economic system.



## NATIONAL POLICY AND ISSUES

### PRC JOURNAL ON OVERALL BALANCE OF NATIONAL ECONOMY

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[Article by Li Chengrui [2621 2052 3843]: "The Balance of Finance and Credit in Relation to the Overall Balance of the National Economy"]

[Text] Since the 3d plenary session of the 11th CCP Committee, notable achievements in our economy have been made with the implementation of the policy of readjusting, reforming, consolidating and improving the national economy. The current economic situation, in general, is a very favorable one. In agriculture, due to the putting into effect of the party's rural policies favoring the rise of farm product prices and thereby enhancing the initiative of the broad masses of the peasant population, the year 1980 witnessed the second highest bumper harvest since the founding of the people's republic in spite of natural calamities. Compared with the previous year, the total industrial output value of 1980 increased by 8.4 percent, of which light industry increased by 17.4 percent. The incomes of staff and workers and peasants were increased and their livelihood improved. However, it should be realized that certain dangers are latent in our economy. The following are the symptoms: the appearance of government financial deficits, the overissuance of currency and the constant rising of prices. The Central Committee of our party and the State Council made the explicit statement: Our present task is to do well in further grasping readjustment and stabilization of the economy. To successfully readjust our national economy, first and foremost, there are three requirements to be fulfilled: basic financial balance, basic credit balance and basic price stability. Of the three, the last one is the result of the first two. Only with balanced finance and credit, can there be stable market prices in the real sense. The following are my personal viewpoints concerning the balance of finance and credit in relation to the overall balance of our national economy.

#### 1. To Achieve Finance and Credit Balance is of Paramount Importance to the Overall Balance of Our National Economy

As early as January 1957, while summing up the experiences of the recovery period of our national economy and the first 4 years of our first 5-year plan, Comrade Chen Yun made the remark: "As long as finance and credit are kept balanced, the relations between social purchasing power and commodity supplies are generally speaking in balance too." Shortly after that, he further commented: "If we fail to balance our financial income and expenditure and the social purchasing power and the volume of commodity supply are not approximately balanced, prices will

give way to hectic rises and the market will be in chaos. This will have an unfavorable impact on economic development as well as on the stable life of the people." Against the test of the historical experience of the past 20 odd years, this judgement stands sound and correct.

In our country, the funds (representing corresponding products) collected by the state budget and credit comprise only a relatively small part of the total social product, but they play a vital role in the development of our national economy. The reason lies in the fact that the state puts in motion and collects a greater part of the pure social income (M) through financial channels. In addition to this, through the channel of credit, the state again sets in motion and amasses a part of the product value that replenishes the consumption of producer goods (C), a part of the product value that goes to individual consumption (V) and a part of pure social income (M). The economy commands finance and credit. Just the same, finance and credit can play a dynamic role in counteracting the economy. The way and proper use of distributing and utilizing government finance and credit funds play an important role in the coordination of the development of the various sectors in our economy, in the appropriateness of accumulation and consumption rations, in the balance of market supply and demand, the stability of prices, the improvement of economic efficiency and in the betterment of our people's life. As shown by plain facts since the founding of the people's republic, smooth sailing and fairly first development of our national economy occur when finance and credit are balanced and the funds are rationally distributed and used. Conversely, misfortune and slow development of our economy occur whenever finance and credit are out of balance and the funds are poorly distributed and used.

However, in the past 2 years, there has been dispute regarding the importance of the role that the balance of finance and credit plays in relation to the overall balance of our national economy. In 1979 there was a financial deficit of 17 billion yuan and after bank notes had been overissued in substantial quantities, some people think: "A deficit of 17 billion is nothing formidable, life is not bad" and "the imbalance of finance and credit has little effect on the overall balance of our national economy." Some even went as far as regarding the so-called "harmless deficits as beneficial deficits" and "a slight deficit is conducive to mildly speeding up economic development." There is a need for enlightenment in this regard.

Why then in 1979 when there was a huge financial deficit in our country, was life superficially "not bad"? There are three reasons for this: 1) despite the imbalance of foreign exchange earnings, some grain, edible oil, sugar, cotton, as well as a certain amount of light industry products were imported from abroad, increasing the market commodity supplies and leaving behind a foreign debt to be repaid in principal and interest; 2) people's savings soared to 7 billion yuan (the average was 1 billion yuan or so in the past) which was instrumental in temporarily moderating the situation, but these savings were to purchase commodities later on; 3) a rare bumper harvest which does not occur every year. Despite these temporary mediating factors, we can all the same discern that financial deficits adversely affect, perhaps have already done so, our economy: the disproportion between accumulation and consumption is aggravated, the gap between social purchasing power and commodity supply is widened, prices rise and the currency depreciates. Retail prices of December 1979 in comparison with those of the

previous year went up 5.8 percent. Again in 1980, the average annual retail price rose higher than that of the previous year. For all practical purposes, this could be nothing other than a by-product of the people's increased monetary income. If this were allowed to go on unchecked, permitting financial deficits to stay or even to grow, and leaving prices to rise, this could very well undo the achievements gained by our economic readjustment and reform during the past few years as well as the betterment of the workers' and peasants' life. This may not only lead to economic hardships once again but may also impair stability and unity, leading to political problems. How can it be said that "deficits are harmless" and "deficits are beneficial"?

In addition, some of our comrades refer to the practical cases where Western countries practice deficit financing and yet manage to develop their economies. From this they conclude that our country can also carry on construction by financial deficits. I take the view that this perception is wrong because there are basic differences between the economic structure and financial functions of capitalist countries and ours. In capitalist countries, by and large, it is the private affair of the capitalists to make industrial and commercial investments, and to carry on production and trading. As to corporation profits, by far the greater part remain in the hands of the capitalists, only a small part goes to the state. There, generally speaking, social economic crises comprise of surplus production with supply surpassing demand. Certain stimulating effects on production have been achieved by bourgeois governments practicing keynesianism, purposely promoting deficit finance, issuing bonds to attract surplus capital to devote to public works and to enhance social purchasing power. In our country, however, the majority of enterprise profits are channeled into the custody of the state. The economic problems we are facing lie in supply not meeting demand and certainly do not lie in surplus production. If leverage is given to deficit financing, this is no different from pouring oil on the fire, aggravating the imbalance of our national economy. Furthermore, it should be seen that the effects of deficit financing and inflation which are taken as measures by capitalist countries to stimulate the economy are quite limited. These measures are becoming less and less effective. The cyclical economic crises are still here and can never be stopped. On the other hand, inflation is becoming more and more serious, unemployment is getting worse with no alleviation in sight, a small number of capitalists are making their fortune while the broad masses of the people bear the brunt. Ours is a socialist country; developing production is for the purpose of satisfying the ever increasing material and cultural needs of the people. We have all the conditions for achieving financial and credit balance through planned and proportionate development of our national economy and undertaking construction under conditions of price stability. And in fact, we did achieve this for many a year after the founding of the people's republic. Why then should we adopt those policies which are not getting popular support in capitalist countries?

## 2. To View Finance and Credit Balance and Overall Balance of Our National Economy From Historical Experience and the Current Situation

Since the founding of the people's republic, we have had experiences, both favorable and unfavorable, regarding finance and credit balance in relation to overall balance of the economy. In the following, I would like to discuss the finance and credit imbalance we experienced during the 1958 - 1960 "great leap forward" period, the 10 year catastrophe and its aftermath up to the 2 years in the recent past.



Let us start with the 3-year "great leap forward" period. That was the time when "taking steel as the key link" was formulated, giving undue stress to the development of heavy industry, which again led to serious disproportion of the national economy. In the mean time, production experienced wide fluctuations, economic efficiency grew much worse, there were big finance and credit deficits, and finally financial debts in the sum of tens of billions of yuan were canceled with one stroke. The volume of currency in circulation more than doubled (this situation prevailed until 1961), prices went up, the currency depreciated, and the people's life became extremely difficult. It took 5 years of readjustment to basically restore things to normal. Then, where did the problem lie at that time?

1) The rate of accumulation was too high and the capital construction front was overextended. The year 1958 witnessed an accumulation rate of 33.9 percent, an increase over the previous year's 24.9 percent. The rate was stepped up to 43.8 percent in 1959. A rate of 39.6 percent was still maintained in 1960. Capital construction investments constituted the major constituent of the accumulations. The share taken by capital construction investments in government outlays soared from 40.7 percent in 1957 to 56 percent in 1958. The share taken in 1959 and 1960 was still high at 54.7 percent and 54.2 percent respectively.

2) The production targets were doubled frequently in pursuit of undue high speed, especially those for heavy industry. Numerous products were substandard and failed to tally with market demand. The output values reported and the taxes and profits turned over to the government by the enterprises created false incomes. Many enterprises had "false profits and real losses." Nominally they netted a profit but actually they suffered losses. State finance had "false income and real expenditure," taken as book values per se, the year 1958 had a surplus of 3.3 billion yuan, and 1959 2.5 billion. Actually, both years were in deficit. In terms of book values, 1960 had a deficit of 1.9 billion and the actual figure far exceeded this. Subjecting the peasants to "egalitarian and indiscriminate transfer of resources" mauled their initiative. Finally, compensation of nearly 30 billion yuan was paid by the government.

3) Under the sway of the "leftist" incorrect line, it was believed that in the credit and loans business, loans were in support of production and reimbursements setbacks to production. Thereby emphasis was placed on loans and inadequate attention was paid to reimbursement. To make things worse, came the slogan: "Give as many loans as are needed whenever they are needed." (At the same time, the commercial sector took up the slogan "whatever the production, purchases will be made"; and "whenever the production, purchases will follow up.")

4) The implementation of "full-amount loans." The ordinary quota of circulation funds (originally appropriated to the enterprises by the Ministry of Finance as costless funds totally at their own disposal) as well as circulation funds in excess of the quota were all made available in the form of bank loans, requiring compensation for their acquirement. In the mean time, it was stipulated that part of the ordinary quota of circulation funds be allocated to banks first and loans be made at the discretion of the banks. In principle, this is of course correct. But actually, when financial stringency occurs, allocations of circulation funds are reduced. Consequently, superficial financial balance is achieved only with the result that banks are squeezed leaving them no alternative but to

issue more bank notes. Despite large quantities of substandard goods and overstocking of products, circulation funds of enterprises were substantially increased and no reductions were made on account of overall payment of interest.

5) The expansion of commercial credits. Many commercial departments made undertakings not included in the plans and the undertakings were devoted to instalment credit sales and prepayment of goods before delivery. Some even went to the extreme of making purchases by "pointing at a mountain to buy minerals" and "pointing at a river to buy fish." Actually, these are only camouflaged loans for capital construction.

6) Many localities and enterprises carried on capital construction by means of short term bank loans which were kept out of circulation for long periods of time. It was the belief of some people that "as long as you take the right direction, have no fear of losing your head." While doing away with superstition, the rational finance and credit systems were done away with also.

In those days we have just recalled, the financial authorities seemed to have at their disposal plentiful funds, but the banks had a very difficult time. Warnings of danger were first signaled by the banks.

Beginning with 1961, under the guidance of the Central Committee of our party and the State Council, the guideline of "readjusting, consolidating, replenishing and improving" was firmly put into practice, making large reductions in capital construction at its very start. The budgetary appropriations for capital construction for 1961 were reduced by two-thirds in comparison with the previous year. In 1963 they were further reduced by one half. The second measure adopted was to rectify the enterprises, a part of which were either closed, suspended, merged or diverted to other operations. Twenty million workers returned to the countryside to take part in agricultural production. The third measure was a 6-point program promulgated by the Central Committee in regard to financial and banking operations with the purpose of cutting down expenses, reducing the money in circulation, and to ban commercial credit without proper authorization. Aside from these, a number of temporary measures were taken, for instance, allowing high prices for certain products with the aim of withdrawing currency from circulation. Through these measures the most important proportions of the national economy were restored to normalcy, credit and finance were brought back into balance, prices were restabilized, and economic efficiency was given a marked boost. In fact, we can trace most of our best economic and technological indicators back to 1965.

During the "Great Cultural Revolution," our economy was badly damaged. In terms of bookkeeping records, of those 10 years, 6 came out with a surplus and 4 with deficits. The true story, however, was that only a bare balance was achieved by false padding on the revenue side and purposeful deduction on the expenditure side brought about by cutting down the people's consumption. As a result of the disastrous effects of the 10-year catastrophe and the errors made in economic work during the 2 years immediately after the smashing of the "gang of four," the year 1979 ended up with a financial deficit of 17 billion yuan. The prospective deficit for 1980 was put at 8 billion, but the actual deficit was larger. The financial authorities heavily overdrew from the banks, causing overissuance of

currency and the rise of prices. There are major differences between the recent period of difficulties and that in the wake of the 3 years of the "great leap forward": agriculture was in better condition, industrial production was edging upward, market supplies were better, but the task of readjustment has been much more complex and difficult. Then, where lie the problems in the case of these 2 years?

1) The accumulation rate was too high and the capital construction overextended. In the meantime, repayment of "debts" over the years stimulated consumption. The total amount of funds allocated to accumulation and consumption exceeded total national income, and government expenses exceeded revenues. The accumulation rate with respect to total national income had been kept at 31 to 34 percent since 1970. The rate for 1978 went as high as 36.5 percent and that for 1979 stood at 33.6 percent. According to the original plan, capital construction for 1979 was supposed to be reduced by 9 billion yuan, the purchase price of agricultural products raised and wages for certain workers increased by the combined amount of 10 billion yuan so that by and large, increased expenditures on certain items could be offset by decreased expenditures on others. But the final outcome was an increase in agricultural product prices and an increase in wages and bonuses that exceeded the 10 billion yuan mark by a wide margin and capital construction was not reduced.

2) The problem of undue emphasis on speed persisted, resulting in overstocking of products and very poor economic results. The current inventory of steel products and very poor economic results. The current inventory of steel products amounts to 20 million tons, that of mechanical and electrical equipment comes to 60 billion yuan and domestic and foreign trade inventories stand at a little more than 10 billion yuan. A considerable portion of these inventories are substandard goods that do not meet market demand. Of course, they tie up a considerable amount of circulation funds and lead to false government revenues and bank deposits. The damaging effects of such substandard goods which do not meet market demand are yet to be revealed.

3) Banks are holding some deposits that are false. When government deficits get really big, funds financed by deficits for the purpose of capital construction and funds earmarked for subsidizing purchase and sales that are not immediately used are temporarily deposited in the bank. The banks face the situation of "nominal deposits and real loans." The medium and short term loans offered by the banks in their efforts to tap potential, renovate and restructure are welcomed by the borrowers, and good results have been obtained from the borrowers' standpoint. Despite this, the lack of corresponding funds for some of the borrowers stimulated the overall credit expansion and inflation.

4) Guided by the slogan of demolishing the "old framework," banks in certain localities extended part of their capital construction loans by making use of local government deposits. In certain localities, local financial administrative bodies set up investment companies of their own and extended loans for capital construction. In this way, finance and banking have been in disorder in respect to their jurisdiction and management.



5) After the initial reform of the economic management system, the retained profits of the enterprises have been increased and in its wake the enterprise bank deposits have also been increased. With the increase of purchase prices of farm products and the increase of wages, the savings deposits of the rural and urban inhabitants have also increased. Likewise, the source of funds of the banks has increased with the increase of savings and deposits. However, in general, due to the fact that government overdrafts and bank loans are increasing at a faster rate, outflow of bank funds still exceeds inflow.

6) The import of farm products and light industry products by means of using foreign debts increases commodity supplies and withdraws a certain amount of currency from circulation for the current year, but causes difficulties in subsequent years.

For the period under discussion, the banks were affluent while the government financial authorities had a difficult time. This time the danger signals first came from the government financial authorities.

Since the 3d plenary session of the 11th Party Committee at the end of 1978 and especially since the central work conference at the end of 1980, the Party Central Committee and the State Council have publicized and put into practice the guideline of "readjusting, reforming, consolidating and improving" the national economy with the emphasis on readjustment as the key link. At present, a number of important measures are being adopted and are beginning to yield good results. Needless to say, it will take some time to fully meet the requirements of the readjustment.

Although the above-mentioned cases of financial and credit imbalance are different in certain respects, they have the following fundamental features in common:

1) Both are the results of errors due to the domination and influence of "leftist" thinking. Therefore, a fundamental solution to the problem of the imbalance in financial and credit revenues and expenditures and that of the national economy as a whole is quite impossible without criticizing "leftist" errors.

2) These two cases of imbalance in finance and credit can be taken as a concentrated reflection of the disproportions of our national economy as a whole. Under the domination of the erroneous "leftist" thinking, undue emphasis was given to the development of heavy industry and to the growth of accumulation in disregard of the national situation and national strength. Consequently, the foundation of balanced finance and credit has been undermined, leading to a situation where "capital construction squeezes finance, finance squeezes the banks, the banks issue more bank notes and ultimately the people's consumption is forcibly lowered."

3) With respect to financial income and expenditure on these two occasions, there have been hidden deficits as well as deficits on record. These hidden deficits were the outcome of fabricated revenues (substandard, unreasonably priced products afford taxes and profits just like regular products. Losses incurred by enterprises are remedied by bank credits, and so forth) and of incomplete listing of expenses (the less than full appropriation of circulation funds already authorized and the reduction of expenditures devoted to the material and cultural aspects of the people's life, and so forth).

4) On both occasions, the problem of credit inflation existed. The banks put short term deposits for turnover purposes into long term capital construction loans, or used too many funds for goods and materials to lie idle and the commercial departments used commercial credits not included in state plans. All this contributed to the widening of the credit gap and is actually a government deficit in disguise.

5) The two cases give clear evidence that government finance and banking are partners which share good times and bad alike. In the 3 years of the "great leap forward," superficially, it seemed that "government finance was rich and the banks were poor," but in fact the richness of the financial departments was false. This time, superficially it seems that "government finance is poor and the banks are rich," but in fact the wealth of the banks is false. Systematic observation and overall analysis should be accorded to finance and credit. Government finance and banks should fulfill their duties in a satisfactory way in their respective fields. In the mean time, they should support each other and come to a unified balance. Government deficits can only lead to the issue of additional bank notes. On the other hand, credit inflation can only aggravate government deficits. Conversely, a financial surplus constitutes a good support for bank credits. The increase of bank deposits coupled with reasonable control of loans can also be a good support for government finance. Putting finance and banking under separate jurisdiction and management are both requirements of the objective world.

### 3. Discussion in Theoretical Terms of Balance of Finance and Credit in Relation to Overall Balance of National Economy

1) The overall balance of the national economy and its relationship to the balance of finance and credit.

The most essential part of the overall balance of the economy can be reduced to the proper formulation of proportions among the various economic sectors and between accumulation and consumption in conformity with Marx's formula regarding the proper relations between Category I and II, and among the factors C, V, and M in the process of reproduction. The economic structure determines the distribution structure. The distribution structure, nonetheless, exerts positive reactions on the economic structure. The allocation and employment of government finance and bank credit funds constitute the deciding factor in the formation of the distribution structure or the ratio between accumulation and consumption.

The allocation and employment of government finance and bank credit funds must be in conformity with the following two requirements. First, the total volume of the allocation and employment of funds must be suited to the inflow of funds, that is, no excessive allocations should be made. Government finance should not depend on deficits and banks should not issue bank notes in excess of the requirements for the normal development of the economy. Bank notes without the corresponding physical supplies can be of no use to the construction of factories and mines, nor are they useful for the betterment of the people's life. The overissuance of bank notes can only give rise to currency depreciation leading to compulsory redistribution of income, damage the normal economic order and impair the production enthusiasm of the broad masses of the people. Second, the allocation and employment of the funds must be led in the correct direction and be of correct

proportions. Rational proportions must be warranted in regard to accumulation and consumption as well as in respect to productive construction and nonproductive construction in the process of accumulation and again in undertaking productive construction, correct proportions must be maintained among agriculture, light industry and heavy industry, construction, transportation and commerce. For many years, under the guidance of erroneous "leftist" thinking, undue emphasis was given to the production of the means of production to the negligence of the production of the daily necessities of the people, and to accumulation to the negligence of consumption. Such emphasis is in violation of objective laws. Here, a review of Marx's equation of expansion of the scale of reproduction is quite necessary. As Marx pointed out, in order to carry out reproduction the new value created in Category I must be greater than that transferred by Category II (replenishment of the means of production consumed). In equation form this would be  $I (V \text{ plus } M)$  is greater than  $II C$ ; Marx further pointed out that the expansion of reproduction must be warranted by the corresponding expansion of Category II. In other words, the two categories must develop in good coordination. The total sum of the original wages, and their additions, and that part of profits devoted to public consumption in Category I is equal to the values of replenished and added means of production in Category II. In equation form this would be  $I (V \text{ plus } M/Z \text{ plus } M/X)$  equals  $II (C \text{ plus } M/Y)$ . In the past we violated time and again this equation with the result of damaging the correct proportions of our national economy, leaving the two components for the advancement of our economy, or the two legs of the economy so to speak, in disproportionate magnitudes, with Category I being left a long leg and Category II a short leg, a combination of which could only result in walking slowly and could render no possible help to the desire to walk quickly. Sometimes the result could be tumbles on the ground, leading to the stagnation or even the retrogression of the national economy and the severe imbalance of government finance and credit. The current economic readjustment requiring reduction of the ratio of accumulation and expansion of the ratio of consumption must be made on the basis of reducing the ratio of production in Category I and expanding that in Category II. Otherwise, peasants and workers can make no purchases despite the fact that they have the purchasing power, and the outcome can only be overstocking of the means of production, shortage in the supply of consumer goods, a tight market, rising prices, and diminishing government revenues. Only by doing things according to objective laws, keeping in line with the scientific principles of Marx, and making the correct economic and distribution structure can the general balance of government finance and bank credits in relation to the overall balance of the national economy be possible.

## 2) The delimitation and overlapping of the channeling of government finance and bank credits.

Funds either from government finance or bank credit are manifestations of the value of social products. The funds from government finance are also manifestations of the value of that part of social products realized by means of gratuitous government financing. These include: (1) taxes and profits turned over to the government by enterprises, the greater part of  $M$ ; (2) taxes paid by inhabitants and the nonmaterial production sectors.

Bank credit funds are manifestations of the value of that part of social products realized in the main by credit transactions involving borrowing and repayments.



They include: (1) deposits from enterprises and institutions, mainly from funds arising from sales, or small portions from C, V, and M respectively; (2) savings of inhabitants, a small portion of V and M; (3) deposits of the state treasury and deposits arising from temporarily idle funds appropriated from the government budget belonging to government organizations, social institutions and schools, mainly from M with small portions from V also. Aside from the above, they also include: (1) new issues of bank notes constitute another source of bank credit funds. Currency in circulation comprises mainly cash held by inhabitants, a small portion of V and M; cash in vaults in the custody of enterprises comes from sales of goods sold, a small portion from C, V and M; (2) retained portion of profits by banks (after bad debts), a small portion from M; (3) appropriations to banks from the state budget, mainly from M, which is double counting of budgetary funds. (Note: the following is a demonstration of hypothetical annual numerical values: 1. The bank credit funds in the table are figures at year end denoting increments or deductions--increment is the general case--in comparison with the previous year end. Such an order of arrangement corresponds to those parts of the current annual value of the gross social product realized by bank credits. As to the balance of the previous year transferred to the current year representing transfer of physical output from the previous year to the current year, that is not included. The appropriations to banks by the government and the double counting thereof are not included either. 2. C1 denotes depreciation, C2 denotes the consumption of the means of production in one production cycle. 3. The problem of international balance of payments is not taken into consideration in this table.

Government Finance and Bank Credit Funds  
As a Result of Distribution and Redistribution

| Value of Gross Social Product |        | Government Finance Funds | Bank Credit Funds |
|-------------------------------|--------|--------------------------|-------------------|
| C 250                         | C1 50  | ---                      | 10                |
|                               | C2 200 | ---                      | 30                |
| V 125                         |        | 10                       | 15                |
| M 125                         |        | 90                       | 15                |
| Total 500                     |        | 100                      | 70                |

As the above analysis and presentation of the table indicate, government finance funds as well as bank credit funds represent certain physical products, and are therefore subject to objective limits. In the practical operation of our work, our banking comrades are quite annoyed, because it is quite proper for the government finance authorities to be short of funds while banks are not supposed to be out of funds. Some leading cadres of certain localities are of the opinion that "while government finance funds are limited in magnitude, bank credit funds are not." When the economy is undergoing readjustment and the government finance is geared to cutting expenditures, usually the banks are resorted to for more money. This is in violation of objective law. The consequence can only be increase of bank loans without the corresponding physical supplies, fostering credit expansion and inflation.

The above analysis and presentation shown by the table further indicate the sources of bank credit funds. In terms of the nature of the funds, it can be seen that the funds come from C and V, playing the role of replenishment, not subject to withdrawals from circulation or transfer for the purpose of being put to other uses. Only a small part of them come from retained profits of enterprises, or from M, which can be retained for long term purposes.

The flow of social funds can be directed through two channels, namely government finance and bank credits. Likewise, the employment of the funds can be directed to the same two channels. The question then arises as to whether the two channels are allowed to overlap?

The answer is: A precise boundary line must be set, and separate management must be provided for the nonrepayable channel and the repayable channel. In the mean time, certain overlapping should be allowed. It is a mistake to mix up the functions of government finance and bank credit. Disregarding the necessary overlapping, nonetheless, is no better either.

As mentioned above, to take into consideration the majority and basic part of the inflow of bank credit funds, we can see they are essentially for the purpose of replenishment and short term turnover. If such funds are diverted to long term financing of capital construction, or are to be diverted to the payment of financial expenses and used up in this way, the consequence would be either interruption of the production cycle or the creation of inflation, which is deficit financing in disguise. Either of these outcomes should by no means be allowed. For this reason, we insist on the principle of separate management. The arguments and measures in support of the desire to have "deficit financing supplemented by bank credit" are dangerous and harmful.

On the other hand, allowance must be made for overlapping that is indispensable in connection with these two channels. The reason lies in the fact that whether the funds should be raised through nonrepayable government measures or through bank credit depends on the nature of the funds and the rationality of the method of raising the funds. However, in respect to the employment of the funds, whether the funds should be raised through nonrepayable government measures or through bank credit depends on the degree of reliance that the state desires to put on the leverage geared to bank credits. For instance, the appropriations for capital construction and the circulation funds at the disposal of the enterprises, both allocated by the government, by and large come from taxes and profits turned over to the government by the enterprises, or are raised through the nonrepayable channel. However, from the viewpoint of employment of these funds, past experience verifies that the gratuitous use of these funds in the form of appropriations from the government, complete and absolute, imposing no direct responsibilities on the entities undertaking construction and on the enterprises, is unfavorable to the economization of fund usage and the improvement of economic effectiveness. To give play to the leverage of bank credit, capital construction investments must have approval of the construction bank and convert the majority of these investments to repayable transactions. As for circulation funds of the enterprises, when circumstances approve, they should be channeled to the people's bank and be converted to "full-scale credit."

Needless to say, it should also be mentioned that in so far as the state enterprises are concerned, the distinction between "repayable" and "nonrepayable" is only a matter of relativity. The reason is that the principle and interest as

costs are reimbursed by the new profits handed over to the state by the enterprises. This is especially true under the present circumstances, where the enterprise and banking laws have not been formulated by the state and therefore, the present laws in respect to "economic responsibilities" do not shed clear light on such responsibilities. Some comrades are of the opinion that government appropriations are evil in the absolute sense ("beating a dog with a meat-stuffed-bun") and bank credits are of the utmost good ("one yuan plays the role of tens of yuan"). Opinions are to some extent exaggerations. The extension of bank credits in a certain sense is beneficial to the improvement of economic effectiveness which, however is gained and promoted with the coordination of many other factors. Without these factors, bank credits can be turned into bad debts and come to losses.

### 3) Concerning the unified balance between government finance and bank credit.

The problem of unified balance between government finance and bank credit lies in the arrangement of circulation funds and capital construction funds. Marx once mentioned that the fixed asset investments, the equivalent of capital construction investments, are "production activities that take away labor power and means of production for a comparatively long period of time without providing any useful products in the mean time."<sup>1</sup> Concerning commodity inventories (circulation funds engaged in the long term), Marx once made the remark: "Without commodity reserves, there will be no commodity circulation." "Commodities to be kept at a standstill should be regarded as a prerequisite for the marketing of commodities."<sup>2</sup> For these two long term loans, no corresponding commodities are available for a considerably long period of time after the money is lent out. For this reason, to keep credits in balance these funds should be supported by social net income (as it is outside the production cycle) by means of government financing. Of course, aside from this, there is also: (1) profits retained by banks (M); (2) bank deposits arising from depreciation reserves belonging to enterprises (C 1); (3) other deposits, including a small portion of the savings of the inhabitants or the minimum balance of such savings for long term investment purposes (C 2, V, M). The following is a tabulation of hypothetical numerical values:

Table 1: The Origin and Allocation of Government Revenues

|   |      |   |      |
|---|------|---|------|
| Taxes and Profits from Enterprises      | MB5  | Allocations of a Non Production Nature                                | 52   |
| Bank Profits Turned Over to Government  | M5   | Allocations for Capital Construction                                  | 40   |
|   |      | Of These: Allocations to Investment Banks for Lending Purposes        | (30) |
| Taxes From Inhabitants and Institutions | VM10 | Allocations for Circulation Funds                                     | 8    |
|   |      | Of These: Allocations to Short Term Credit Banks for Lending Purposes | (5)  |
| Total                                   | 100  |   | 100  |
|   |      | (Appropriated to Banks 35)  |      |

1. Marx: "Das Kapital," Vol 2, People's Publishing House, 1975, p 396.

2. Ibid., Vol 2, pp 164-165.



**Table 2: The Origin and Utilization of Long Term and Short Term Bank Loans**

(Credit funds for the purpose of short term turnover are not included in this table. The reason for this is that as far as short term turnover is concerned, in theory supply and demand are automatically balanced. On the one hand, enterprises need bank loans for the purchase of supplies. On the other hand, as sales are concluded, enterprises make deposits in the banks, or redeem loans, as well as retain the necessary part for circulation purposes--the part kept in circulation in society. The volume of bank lending and the volume of borrowing with the addition of money in circulation are balanced. Of course, in our practical work, sometimes bank loans are made without the corresponding physical supplies to back them up and some enterprises do not pay back their debts on schedule. All this gives rise to disparities. For the sake of simplicity, such disparities are not listed here. Aside from these, it should be understood that figures in this table are compiled in the light of the present economic management system; with major improvements to the system in the future, and with greatly increased profits at the disposal of the enterprises, a different picture will emerge.)

|  |        |  |    |
|--|--------|--|----|
| Loans for the Purpose of<br>Capital Construction Con-<br>signed by Government                            | M 30   | Long Term Loans for the<br>Purpose of Providing Circu-<br>lation Funds | 20 |
| Appropriations From Govern-<br>ment for the Purpose of<br>Long Term Circulation<br>Funds                 | M 5    | Loans for Long and Medium<br>Term Fixed Assets Investment              | 40 |
| Retained Bank Profits  | M 5    |  |    |
| Depreciation Reserve<br>Deposits   | C 1 10 |  |    |
| Short Term Deposits and<br>Part of Inhabitants'<br>Savings Devoted to Long<br>Term Utilization (C 2,V,M) | 10     |  |    |
| Total  | 60     |  | 60 |

The banks referred to here include not only the short term credit banks, but also the investment banks (construction banks).

In the above two tables, after deducting the double countings of the government finance and bank credit funds, the government revenues come to 100 and the funds flowing into banks amount to 25, making a total of 125. Allocations made by the government equal 65 (52 plus 10 plus 3) and funds flowing out of the banks equal 60, making a total of 125 also, indicating a balance between incoming and outgoing items, and the unified balance of government finance and bank credit.

In the above two tables, if a deduction (or falsehood) occurs in the incoming streams of either the government or that of the banks, or if irrational increment occurs on the side of allocation of funds, the outcome of imbalance between government finance and bank credit and overissue of bank notes will take place. Example 1: Let us suppose in the government revenues, namely the taxes and profits turned

in by the enterprises, a value of 5 comes from unsuitable and unmarketable goods which rule out the realization of value. In this case, government revenues amount to 95 only, but the book values still stand at 100, containing a hidden deficit of 5 with the inevitable consequences of issuing more bank notes. Example 2: In the allocation of bank credits, let us suppose that the long and medium term credits are increased from 40 to 43. In this case, the allocation of credits would come to 63, causing a credit deficit which is increased government financial expenditure in disguise and inevitably would take the expression of government deficits. Example 3: In the government financial allocations, let us suppose that the capital construction allocations increase from 40 to 44, and those for circulation funds decrease from 8 to 4, of which the parts going to banks decrease from 5 to 2. In this case, the overall credit allocations would come to deficits with the implication that this particular value of 3 can only be remedied by issuing more bank notes. And all these cases mentioned should by all means be circumvented.

#### 4. A Number of Suggestions and Contemplations

First, compilation should be made by planning authorities in regard to the overall plans of government finance as an important part of the overall balance of the national economy (some comrades get the idea that the term "overall plan of government finance" is not scientific enough and should be changed to "overall plan of government finance and bank credits." In this regard there should not be any problem). With this plan, overall and rational arrangements can be made in connection with budgetary funds, nonbudgetary funds, and specially earmarked funds for enterprises, and so on. Such arrangements are advantageous to the rational arrangement of the important proportions of our national economy. In the early 1960's, compilations were made in respect to the overall plan of government finance, but were washed away by the waves of "leftist" thinking. Now that "leftist" thinking is being rectified, such compilations should be restored. In view of the fact that the initial reforms in regard to our economic management system have brought growth to profit shares of enterprises and to the proportion of local government finance, the establishment of integrated government financing and the strengthening of planned guidance accorded to the overall allocations of funds are all the more indispensable. In the recent reductions of capital construction investments, some of the investment projects affected quite often take the route of moving from inside to outside the government budget, from government finance to bank credits, and from capital construction to the category of tapping potential, renovating and restructuring. Problems like these need examination and guidance by way of overall planning of government finance. It goes without saying that overall planning of government finance is an important instrument in the command of the governmental organs for the purpose of integrated balance, and should not be understood as planned targets in the nature of government directives destined for transmission to the lower ranks. Aside from this, suggestions should be made to the authorities compiling the plan in regard to the tabulation of the balance of international payments (not just the balance of foreign exchange payments of the current year). This is closely related to the domestic balance of government finance and bank credits, and an integral part of government finance and bank credits.

Second, government finance and bank credit undertakings must be of service to the readjustment of the national economy. A firm implementation must be put into effect in regard to the "eight-point program for government finance" and the "eight-point program for banking," recently promulgated by the State Council. In 1962 the State Council issued two "six-point programs" one for government finance and the other for banking. Both played important roles in reducing the money in circulation, stabilizing prices and in facilitating readjustment work. Useful experiences there should be incorporated into the present programs and made use of. Government finance should be underlaid with a budget which is designed in real equilibrium without deficit. And once the balance is equated, strict implementation is to be carried through, to the very letter. And banks are to stick to the principle that "loans must be warranted by corresponding physical supplies" and "loans are to be reimbursed (capital construction as well as tapping potential, renovating and restructuring loans are to be reimbursed by profits made in such undertakings themselves and it should be strictly forbidden to divert funds from other profits to be turned over to the government for such purposes). Loans not redeemed on schedule are to be closed. The enterprises involved here should be held responsible for the stoppage of production and non-payment of wages that ensue as a result of this (in regard to this, the state should formulate the necessary laws and ordinances for the enterprises to abide by). This imperial sword (a symbol of authority) should be given to the banks. Otherwise, the banks could still be operated on the loan system of "providing all primary necessities," which would mean repayment if the borrower has the capability and putting off repayment if he does not. Of course, the imperial sword should be used in combination with readjustment programs. With regard to the enterprises that are to be closed, suspended, merged or shifted, the government should formulate appropriate measures to cope with their situation, lest stability and unity be impaired.

Third, the government should allocate funds for the purpose of circulation in full. This is not easily done. This is not because the Ministry of Finance is reluctant to make the allocation in full. Rather, it is because of the lack of revenue and the needs being so numerous. Trying to make ends meet very often results in the circulation funds allocation being squeezed out and of overissue of bank notes. For this reason, a study of the appropriate proportion is quite essential and the end result should be laid down "rigidly." As the experiences during the normal years before the "Great Cultural Revolution" indicate, the annual allocation of circulation funds made by the government (including allocations to enterprises of funds meant for their free disposal and credit funds allocated to banks) should comprise 8 percent of total government budgetary expenses. Or in other words, the ratio between capital construction investments (fixed asset investments) and circulation funds should be 5:1. Suggestions should be made for carrying out a study of the present situation right after some initial reforms so that a proper proportion could be stipulated.

Fourth, at present excessive circulation funds have been taken up and serious checks as well as reductions should be carried out. This would not only reduce the total amount of circulation funds but also augment the commodity supplies in the market. With the present situation of having public finance deficits and disparities in bank credits, funds arising from reductions should go to the banks to be used to withdraw currency from circulation and to stabilize prices. Any diversion for the purpose of expanding capital construction is an act of indiscretion.



Fifth, the separate management of government financing and bank credit funds should be a must and overlapping of the two is allowed only with the required conditions. Allocation of loans for capital construction purposes should be conditioned by the ability of the government to grant appropriations to the banks. Allocating loans for the purpose of tapping potential, renovating and restructuring should be backed by corresponding supply of funds. If the allocation of capital construction loans is only brought about with the accompaniment of overissue of bank notes, it could be nothing more than a disguised expansion of government deficits and the lengthening of the capital construction front. It is my belief that all loans pertaining to investments, very likely, are better undertaken by the investment banks (construction banks). As such, it is easier to control the scale of total capital construction and easier to achieve the balance of government financing and bank credits as well as the overall balance of the national economy.

Sixth, suggestions should be made to strengthen work in statistics. Statistics is the foundation for drafting a plan for the national economy. As of now, our work in statistics is quite weak. For the purpose of giving more accuracy to our statistics, and more comprehensiveness to our statistical indicator system in order that we may have a better knowledge of the situation and resources of our country, and achieve balance in regard to public finance, bank credit, commodity supply and foreign exchange as well as the overall balance of our economy, the setting up of a sound, centralized, unified and strong statistical system is urgently needed. While making our current economic readjustment, statistical work should be strengthened, and by no means be weakened.

Seventh, suggestions should be accepted that enterprise codes and banking codes (or credit codes) be promulgated at an early date. These laws should not only deal with the principles but also make clearcut stipulations concerning the solutions to the practical problems. For instance, it is insufficient just to specify the principle of loan repayment at maturity. The code should specify what to do, should enterprises fail to repay the loans. What is to be done, should rises of interest rates be followed by hikes in costs, reduction of profits turned in, and endless postponement of repayment? Are enterprises allowed to close down? And what should be done in regard to the personnel, financial means and other assets involved? Without such stipulations, the so-called "repayment principles" and the so-called "risks taken by the banks with respect to loans" can never be realized. Let us take another example. It is insufficient just to specify that the lending enterprises should "take direct economic responsibility." It must also be specified as to who takes the responsibility (the enterprise or the person in charge of it). Do banks have the right to dispose of assets belonging to the enterprises, and so forth? It is my personal opinion that since the law of value is accorded acceptance, it is inevitable that competition must be accepted; if competition is accepted, then elimination is bound to be accepted too. A given 1 percent annual elimination (the total number of enterprises in the country being 350,000, the annual elimination would amount to 3,500) would perhaps be better than a 10 percent elimination every other 10 years. Elimination (with the permission of the government) should be taken mainly through economic means (including compulsory reclamation of loans and the stoppage of extending new loans). This is perhaps better than resorting mainly to elimination ordered by administrative bodies (issuing an order to close, suspend, merge or shift). To

cope with all this, it has been suggested that the law of closing down enterprises be enacted, and consideration be given to enacting the social relief law within the financial means of our country. It has also been suggested that the manpower, houses, equipment and technology belonging to the enterprises that have been closed down be utilized to set up a group of technical schools and secondary vocational schools. In addition to the workers of the closed-down enterprises who participate in training with pay (the aged and infirm not included), training should also be given to part of the young people awaiting employment. Those who pass the examinations at the termination of their studies should be assigned to existing enterprises for employment. In the mean time, workers who have not participated in the training program should be given leave to undergo rotational training. In this way, the policy of "training of all personnel" and "formal training" may be put into effect and the skills of the workers enhanced. We must see to it that changes are made to the present situation of an excessive rate of employment among our urban population, a low rate of efficiency (a great waste for all practical purposes regarding the lack of energy and raw materials and the undercapacity operation of many enterprises), the low percentage of the population having received education and the far too low standard of technological know-how.

Eighth, the balance of government finance and bank credits depends fundamentally on the development of production and improvement of economic efficiency. The taxes and profits provided by state industrial enterprises per 100 yuan of sales amounted to 30 yuan in 1965 and 25 in 1979, a decrease of 16 percent. As shown by statistics from the metallurgy, electricity, coal, petroleum, chemical, machine building, construction material, textile, light industry and certain other sectors, out of 46 comparable output quality indicators, in terms of average values between January and November 1980, 18 indicators are still below the historical best mark, comprising 39.1 percent of the total. Of the 61 consumption indicators with regard to energy and raw materials, in terms of the average value between January and November 1980, 31 indicators are short of the best historical performance, comprising 50.8 percent of the total. It can be readily seen that there is great latent potential. It is only with the development of production and enhancement of economic efficiency that "the inflow of wealth can be copious," and that the balance of government financing, bank credits, produce supplies and foreign exchange can be given a solid foundation, and only under the conditions of a stable market can production be steadily increased, the accumulation funds and consumption funds be increased, and advances be made on solid foothold toward the grand goal of modernization.

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## NATIONAL POLICY AND ISSUES

### PRC JOURNAL INVESTIGATES AUTONOMY IN ENTERPRISES

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[Article by Tian Fang [3944 2455], Qi Dong [0796 2639] and others: "Initial Investigation on Trial Points in Enlarging the Autonomy of Chongqing's Enterprises"]

[Text] From 21 October to 16 November, 1980, we carried out trial-point investigation in enlarging the autonomy in Chongqing's enterprises. Now we sum up what we have investigated as follows:

#### I

Under the leadership of the Sichuan Provincial Party Committee and the Provincial People's Government, experiments in enlarging the autonomy in some enterprises in Chongqing City, which first began in October of 1978 at the Chongqing Iron and Steel Company, have been underway for 2 years. At the beginning of 1979, the experiments were enlarged to 20 industrial and communications enterprises and six commercial enterprises, in accordance with the "proposals on experiments in enlarging the enterprises' autonomy and in speeding up production and construction" (known as the "fourteen proposals" for short, and commonly called "small-scale enlargement of autonomy" and the main characteristic of which is to carry out the distribution of planned and extraplanned profits) put forward by the party group of the Provincial Economic Commission. In 1980, in accordance with the Provincial Party Committee's and the Provincial People's Government's "notice concerning doing a better job in experiments in enlarging the autonomy in local industrial enterprises" (known as the "twelve clauses" for short, and commonly called "medium-scale enlargement of autonomy" and the main characteristic of which is to carry out the distribution of total profits) and "notice concerning experiments in running five enterprises with sole responsibility for their own profits and losses" (known as the "twenty clauses" for short and commonly called "large-scale enlargement of autonomy" which includes independent accounting, state taxation and sole responsibility for the enterprises' own profits and losses), the experiments were further enlarged to 149 industrial and communications enterprises, of which 108 underwent "small scale enlargement of autonomy," 15 underwent "medium-scale enlargement of autonomy," two underwent "large-scale enlargement of autonomy" and 24 were "responsible for their own profits and losses." These 149 enterprises account for 31 percent of the total number of city-run industrial and communications enterprises under the system of ownership by the whole people. Their total output value accounts for 70 percent, their profits about 80 percent. In addition,



experiments were enlarged to 32 commercial enterprises, of which 15 underwent "large-scale enlargement of autonomy" and 17 underwent "medium-scale enlargement of autonomy."

In these 2 years, experiments in enlarging the autonomy of Chongqing's enterprises have brought into play the initiative of the staff and workers of the enterprises selected for trial points, and notable economic results have been achieved.

In 1979, the total industrial output value of 20 enterprises that underwent a "small expansion of autonomy" increased by 16.84 percent over 1978. Their profits increased by 37.33 percent, and the profits turned over to the state increased by 11.46 percent. From January to November, 1980, the total industrial output value of the whole city increased by 8.2 percent over the corresponding period of the previous year. The total industrial output value of the trial-point enterprises increased by 13.71 percent (of which the total industrial output value of the enterprises that underwent a "small expansion of autonomy" increased by 16.38 percent, the total industrial output value of the enterprises that underwent "medium expansion of autonomy" increased by 2.94 percent, the total industrial output value of the enterprises that underwent "large expansion of autonomy" increased by 49.58 percent and the total industrial output value of the enterprises that were "responsible for their own profits and losses" increased by 48.63 percent). The profits turned over to the state by the whole city dropped by 8.51 percent. The profits turned over to the state by the trial-point enterprises dropped by 8.24 percent (of which the profits turned over to the state by the enterprises that underwent "small expansion of autonomy" increased by 7.07 percent, the profits turned over to the state by the enterprises that underwent "medium expansion of autonomy" dropped by 24.86 percent, the profits turned over to the state by the enterprises that underwent "large expansion of autonomy" increased by 36.24 percent and the profits turned over to the state by the enterprises that were "responsible for their own profits and losses" increased by 58.03 percent). The reason why the profits turned over to the state by the enterprises that underwent "medium expansion of autonomy" dropped was that the prices of raw materials had risen and the production tasks had not been sufficient.

Results were notable in trial-point expansion of autonomy in commercial enterprises. From January to August, 1980, the net commercial purchase value of the whole city increased by 19.2 percent over the corresponding period of the previous year, and that of the trial-point enterprises by 34.4 percent. The net marketing value of the whole city increased by 11.8 percent, and that of the trial-point enterprises by 22.9 percent. The profits turned over to the state by the whole city increased by 10 percent, and those by the trial-point enterprises increased by 17 percent.

Most of the profits that had been created by the trial-point enterprises were turned over to the state. The enterprises' funds that were retained only accounted for a small percentage. For instance, from January to November, 1980, 83 percent of the profits created by the Chongqing Clock and Wrist Watch Company were turned over to the state through various taxation, and the retained enterprises' funds only accounted for 17 percent. The greater part of the funds retained by the enterprises that expanded their autonomy was used for developing production, and the smaller part for the welfare of the collective and for rewards. For instance, 60 percent of the enterprises' funds of the Chongqing No 3 Printing Factory was

used for developing production, 30 percent for the welfare of the collective and 10 percent for the rewards of the staff and workers. This fully shows that the experiments in expanding the autonomy in enterprises have brought along a notable increase in the interests of the state, the collective and the individual. Being satisfied with the condition, the staff and workers said vividly, "the state has the largest interests, the enterprise has smaller interests and the individual has the smallest interests. Fine!"

## II

The trial points in expanding autonomy in Ching's enterprises were carried out in a planned way under the unified leadership of the Provincial Party Committee and the Provincial People's Government. Trial-point enterprises grew from few to many in the forms of "small expansion of autonomy," "medium expansion of autonomy" and "large expansion of autonomy." In the practice of trial points for more than 2 years, much experience was created and accumulated through the joint efforts of the staff, workers and cadres. This shows a correct orientation for restructuring the economic management system. We can study it from the following aspects.

First. Correctly handle the economic relations between the state and the enterprises by starting with the expansion of autonomy in enterprises. In this way, the fundamental question in restructuring the economic management system is grasped.

Under the socialist system of public ownership, it is absolutely necessary for the state to manage and interfere in the economic activities of various enterprises. But it will not do to replace enterprises with administration or to confuse administration with enterprises. An enterprise is the basic unit for production and exchange, and as the immediate organizer of production, it must have relative independence and autonomy in organizing and directing production and management. If it does not have relative independence and autonomy and has to listen to the higher administrative organs in everything it does, or if it completely relies on external strength so as to move forward, then the production and management activities of the enterprise can absolutely not be carried out normally.

The present economic management system of our country is actually ignoring the difference between administration and enterprise and ignoring that enterprises should have relative independence, autonomy and economic interests. Under this system, enterprises have become subordinate bodies of government administrative organs, and their economic policies and activities will all be decided and directed by government administrative organs. As a result, economic efficiency is very low, waste is serious, bureaucratic style of work and the habit of issuing confused orders are fostered, thus the development of the productive forces is hindered. To change this situation, the present economic management system must be restructured, and the enterprises must be given relative independence and the necessary autonomy. In other words, the economic relations between the state and the enterprises must be handled correctly. In the past, our restructuring of the economic management system was merely based on handling the relations between the center and the localities. We failed to grasp the fundamental question of solving the economic relations between the state and the enterprises, but got bogged down in the question of "general rules" and "concrete regulations." Therefore the results were not notable.

Expanding enterprises autonomy is the point of departure and end-result of restructuring the economic management system. In other words, to restructure the system, we must start from the expansion of enterprise autonomy, and the purpose of restructuring the system is to liberate and develop the productive forces of the enterprises. The practice in Chongqing for more than 2 years has proved it is taking this road. They pay special attention to the economic relations between the state and the enterprises, and have given an important position to the expansion of autonomy in enterprises and to bringing into play the initiative of the enterprises. Practice has proved that this is correct. In the first place, in the process of trial-point expansion of autonomy, the enterprises gained part of the power for planning production, part of the power for marketing, part of the power for retaining profits, part of the power for allocating the enterprises' funds, and part of the power for arranging personnel and for allocating salaries and wages. Though the power is far from being sufficient at present, with some still remaining to be completely realized, the enterprises' power, responsibilities and profits have been combined together, and the binding around the enterprises has been loosened. Therefore, the initiative of the staff and workers has been brought into play, and such remarkable economic results as mentioned have been attained. In the second place, the realization of the autonomy as mentioned above will involve limitation of the power of planning departments, financial departments, material departments, labor departments and personnel departments in the localities, all of which are restricted by the rules and regulations laid down by the central departments concerned. Therefore, the expansion of autonomy will inevitably touch upon the whole existing economic management system and limitations of management power of various departments. This will provide the restructuring of the whole economic management system with a motive force that comes from the grass-roots.

Second. The gradual realization of the position in which the enterprises will be the relatively independent producers of commodities is the only road to take for restructuring the present economic management system.

Under the actual economic conditions of the socialist system of ownership by the whole people, there inevitably exist the relations of commodities among different enterprises, because of different divisions of labor and independent economic interests. But enterprises are not independent owners of the means of production, which belongs to the state that represents the whole people. Each enterprise only has part of the power to own and use it. Therefore, the enterprises under the system of ownership by the whole people are relatively independent producers of commodities. As relatively independent producers of commodities, they must be relatively responsible for their own profits and losses. All enterprises must attain the maximum economic results with the minimum consumption of labor on the track of the planned economy and by using the law of the value of commodities during the process of production and circulation, and realize the economic interests of the enterprises themselves under the prerequisite of guaranteeing the interests of the state.

In more than 20 years after the basic completion of the socialist transformation of the means of production in our country, we failed, in theory and in practice, to understand that the socialist economy at the present stage is a planned commodity economy, therefore we did not admit that the law of value plays a regulatory role



in circulation and production, and set regulation by planning mechanism against that by the law of value. We did not admit that the enterprises under the system of ownership by the whole people are relatively independent producers of commodities, which are relatively responsible for their own profits and losses. Sometimes we even equated the socialist commodity economy with the capitalist commodity economy, regarded the law of value as a flood or a wild animal, negated the principle of profits and ignored the economic accounting system. China's present economic management system and its shortcomings are closely related to this theory and practice. Now if we want to restructure the economic management system, it must be made clear that the main body of China's socialist economy is a planned commodity economy. Starting from this characteristic, we must combine the strengthening of leadership over macroeconomics with the enlivening of microeconomics. We must do things in accordance with the law governing the economy, particularly with the law of planned and proportionate development, and in accordance with the law of value. We must confirm that enterprises are the relatively independent producers of commodities.

Trial points in enlarging the autonomy in Chongqing's enterprises are being carried out under the guiding principle of affirming that enterprises should be relatively independent producers of commodities. By adhering to the demands of the law of value, by bringing into play the role of regulation by market mechanism and by using various economic levers related to the commodity economy, they have achieved quite good results in the process of enlarging the autonomy in enterprises, so far as promoting productivity, raising the quality of products, increasing the variety of commodities, reducing costs and increasing profits are concerned. In addition, under the guidance of the provincial departments concerned, two industrial enterprises have realized trial points for "independent accounting, remitting taxes to the state and being responsible for their own profits and losses." Of course, the enterprises that have realized "large-scale enlargement of autonomy" are of a transitional nature. In principle, they are required to be responsible for their own profits and losses, but in reality, they are not able to comply with it completely. The reasons are as follows: 1) The present trial-point enterprises are all enterprises that are superior in production and that are able to gain big profits. This means that they are qualified to carry out the experiment of "being responsible for their own profits and losses," and actually, they are only responsible for their own profits but not losses. 2) The autonomy of the enterprises that are carrying out the principle of "being responsible for their own profits and losses" has not to a large extent been realized, though it is clearly stipulated in the document concerned. Therefore, the principle of "being responsible for one's own profits and losses" that is being carried out is actually a system of job responsibility that "replaces profits with tax, with the remainder being turned over to the enterprises." As to what the socialist enterprises' "being responsible for their own profits and losses" really means, and whether or not the power of the future enterprises can be enlarged to the extent of "being responsible for their own profits and losses," this remains to be proved in practice and studied further in theory.

Third, restructure the system of leadership of enterprises, and let the workers take the power of managing the enterprises in their own hands.

Under the socialist system of public ownership, the staff and workers are the masters of the enterprises, and being the masters, they should exercise their right to be master of their own house. But what we see in practice is far from this. The enterprises will have more and more autonomy, following the development of trial points in enlarging the autonomy of enterprises. If the enterprises' autonomy is handed over merely to certain responsible persons, but not to the democratic management organs that represent the staff and workers, the question of the workers being the masters of the enterprises still cannot be solved.

In the past 2 years, the trial-point enterprises in Chongqing have moved a step forward in restructuring the system of leadership. In the trial-point enterprises, there are two ways to follow: one is to exercise the system of the factory head being in charge under the leadership of the party committee. Attention should be paid to bringing into play the role of the staff and workers' congress. Important decisions will be carried out by the factory head after having been discussed by the staff and workers' congress and approved by the party committee. This is somewhat more democratic than before and has played a positive role. For instance, the workshop heads and section chiefs of the factory and mining enterprises subordinate to the Chongqing Iron and Steel Company are now elected directly by the staff and workers. This is better than appointment by the authorities. It has the characteristic of "three mores and one raise," that is, more personnel understand production, there are more advanced personalities, there are more people in the prime of life and the educational level has been raised. Next, trial implementation of research on the system of the factory head being in charge under the leadership of the staff and workers' congress is to be carried out in two enterprises that are undergoing "large-scale enlargement of autonomy." Under this system, the party committee's main task is to implement the party's line, principles and policies, to bring into play the exemplary role of party members and the role of the party organizations in supervising and guaranteeing production. The party committee will not exercise direct leadership in production work, but will turn over the authority of making policies to the staff and workers' congress, and the authority of guiding production to the factory head. It seems that this orientation is correct. But we must be careful about the reform of the system of leadership in enterprises. We must train cadres through trial points, and gradually push forward the reform on the basis of raising the understanding of the cadres and the masses. We must guard against rashness, otherwise it will be harmful to reform.

### III

The trial points in enlarging autonomy in Chongqing's enterprises are being carried out during the period of readjusting the national economy and under the situation that the economic management system has not completely been restructured and that the proportion of the national economy is seriously out of balance. What is more, the enlargement of the autonomy in enterprises is a new thing and various contradictions will inevitably emerge during the enlargement. This is good, because this is one of the most important achievements in the trial-point work. Here are the major problems we have found out from the experiments in enlarging the autonomy in enterprises.

First. The contradictions between the enlargement of autonomy in enterprises and the old system.

Enlarging the autonomy of management and administration in enterprises, especially carrying out the principle of "being responsible for their own profits and losses," will involve the reform of the whole national economic management system. The reasons are: First, on the basis of the socialist system of public ownership and large-scale socialized production, the various national economic departments are a unified body. Close relations of division of labor and cooperation of work exist among various enterprises. Second, so far as an enterprise is concerned, production, circulation and allocation are a unified process, they cannot be mechanically separated, and in reforming the economic management system, it will not do just to reform this and not reform that. Third, the essence of enlarging the autonomy in enterprises is to take back the enterprises' right of being relatively independent producers of commodities from the national economic comprehensive departments and the departments in charge. "Returning the right to the enterprises" in the true sense of the word will mean an all-round reform of the management system of the enterprises.

At present, the whole national economic management system has not been fundamentally reformed, and the enterprises are enlarging their autonomy in management. Therefore, sharp contradictions between the enlargement of autonomy and the old management system are sure to emerge. The practice of the enlargement of autonomy in Chongqing's enterprises shows that these contradictions have brought about limitations to the realization of the enterprises' autonomy. For instance, the enterprises have strong opinions about the labor and salary system. It is stipulated in the document concerned that the trial-point enterprises have the right to recruit and dismiss staff and workers according to the requirements of production. After the enlargement of autonomy, the enterprises do not need to increase the number of workers any more so as to raise productivity. But the labor departments still assign a great deal of the labor force to the enterprises by relying on administrative orders, in the hope of solving the question of employment for the youth. So it is clear that the enterprises still have no rights over personnel. Another example is that the trial-point enterprises have the right to set up a salary reward system in the income of the enterprises and have the right to issue rewards to the staff and workers of the enterprises. But because the whole salary system has not been reformed and because of other reasons, the departments in charge have instructed the enterprises to give limitations to the average monthly rewards for each person. In addition, the contradictions between the present price, planning, the material and financial system and the enlargement of the autonomy in enterprises are also very sharp. They must be studied and solved.

It is obvious that the enlargement of the autonomy in enterprises and the reform of the whole national economic system are two inseparable aspects of one and the same question. The enlargement of the autonomy in enterprises and the smooth implementation and success of the trial points of being "responsible for their own profits and losses" must be in close coordination with the reform of the system of the comprehensive departments and of the departments in charge. Trial points must be carried out not only in the reform of the financial and tax systems but also in the reform of the planning, price, material, labor and salary systems.

Second, the question of "hardship and happiness being uneven" is outstanding.



After the enlargement of the autonomy in enterprises, the level of profits directly involves the material interests of the enterprises and of the staff and workers. Because of the irrational prices and tax, and because of the difference of technological equipments and material conditions, the difference in income among the enterprises is quite outstanding. This is what is generally mentioned as "hardship and happiness being uneven." This question is rather outstanding among the trial-point enterprises in Chongqing. According to the statistics compiled by the departments concerned, in some enterprises, the average funds for each person are as high as 1,000 yuan, but in others it is only 80 yuan, a differential of over 10 times.

The question of "hardship and happiness being uneven" cannot be reasonably solved within a short period of time. And it will continue to exist, but it must not be legalized or made permanent. In the process of the trial points in enlarging the autonomy in Chongqing's enterprises, there was once the proposition and exercise of "protecting vested interests." This was inappropriate. We must analyze the "vested interests" of the enterprises. It is right to protect and encourage the interests that are gained through subjective efforts, but it will not do to protect the interests that are brought about by objective elements. Proposing without analysis to protect the "vested interests" actually means protecting the "unevenness of hardship and happiness" which will result in the constant enlargement of the irrational difference between enterprises. Taking the whole situation into account, this condition is not favorable to bringing into play the initiative of the whole working class, and to developing the social productive forces.

As to the question of "hardship and happiness being uneven," comrades of the Sichuan provincial and Chongqing municipal departments concerned have begun to study. Some comrades suppose that under the condition that the price system and price complex have not been restructured, the rational method for readjusting the "unevenness of hardship and happiness" caused by the price elements is to reform the industrial and commercial tax system and to put a tax on products, that is, tax will be levied on products after their average cost and their average profits calculated on the basis of the average profit rate for funds have been deducted from the present prices of products. But this method needs careful statistics and calculation, which is hard to realize within a short period of time. Therefore they have decided to set up a system of income readjustment tax as a transitional method.

Third. Planned guidance should be strengthened.

In the trial-point work of enlarging the autonomy in enterprises, Chongqing carries out the principle of combining regulation by planning mechanism and regulation by market mechanism, and pays attention to bringing into play the role of the market. This has brought about positive results in enlivening microeconomics. Particular examples are those enterprises that have not enough production tasks. They have found a way out by using their right for marketing their own products and by relying on the market. The Chongqing Iron and Steel Company is a case in point. In 1979, the output value of their self-marketed products accounted for 20 percent of the total output value. In 1980, 40 percent. These are their own words: "The right of self-marketing has saved the economy of the Chongqing Iron and Steel

Company." But following the unfolding of regulation by market mechanism activities, the struggle for raw materials and the competition for markets and profits have intensified among the enterprises and departments. Blind production, duplicate construction, the phenomenon of using the small to squeeze out the big, speculation and profiteering constantly emerge, some even to a very serious extent. When the effects of regulation by market mechanism are becoming more and more prominent, whether we are willing to, and how we should strengthen the work of planning and guiding have become a problem of common interest. Different enterprises have different opinions on this important problem. Some enterprises that are eager "to look for rice to prepare a meal" and whose products enjoy good sales, think that the state plan "has no effect on them." Some that cannot find "rice" or that have found insufficient "rice" feel that they are in difficulties and that they should rely on the state plan. Some enterprises are of the opinion that the quotas in the state plan are impractical and that if there is any change in the quotas, the state has little consideration about the status of the enterprises. Therefore, planning and guiding are actually empty. And toward the problems that emerge in regulation by market mechanism under the circumstances that the new is replacing the old, the planning departments are powerless and do not know where to start.

Our socialist economy is based on large-scale socialized production and on the public ownership of the means of production, and is a planned commodity economy. Here, not only the law of value, but also the law of planned, proportionate development governing the national economy plays a regulatory role, and the basic law governing the socialist economy still plays the leading role. Therefore, we must not set regulation by planning mechanism against regulation by market mechanism, nor must we separate them. The state's regulation by planning mechanism and the necessary administrative interference must be strengthened in the macroeconomic activities. Microeconomic activities must not be divorced from the state's planning and guidances. If viewed from the actual condition of enlargement of the autonomy in Chongqing's enterprises, it is imperative to strengthen planned guidance and the necessary control over self-marketing of some products, the use of "self-allocated funds" and the issuance of rewards.

The role of the right of self-marketing of some products is, through finding out about the demands of the market, to solve the problem of what products are marketable, to improve the variety of products, to promote the quality of service and to promote the sale of the products which are in full supply and the sale of new products. This is beneficial to enlivening microeconomic activities and to increasing certain material interests of the enterprises, and it must be affirmed. But in the process of implementation, we must first guarantee the fulfillment of the tasks put forward in the state plan. The proportion of self-marketed products (especially of the products which are in short supply) must not be excessive. There must be certain control over the trial sale of new products. The enterprises should not retain too much commercial profits. For instance, there is an enterprise in which the self-marketed products account for 50 percent of its total output. The products are not unsalable, and their profit rate is high. If only one individual enterprise carries out such an experiment, it can still be regarded as an exception. But if it is to be promoted, it will not only enlarge the unevenness of hardship and happiness among enterprises, but also influence the state revenue.

The use of "self-allocated funds," and especially of the funds for the development of production, is a big problem. Now some enterprises have demanded the right to use the "self-allocated funds" freely. Some comrades are trying hard in proposing that the enterprises should have the power to use the "self-allocated funds" to carry out enlarged reproduction. It seems if the enterprises do not even have such little power, it will not be beneficial to the development of production. But it will not do either for the enterprises to use all the power without any control. First, the use of "self-allocated funds" must accord with the whole interests throughout the country and with the needs for the rational arrangement of production, especially in the present readjustment period. For instance, the Chongqing Iron and Steel Company once planned to use over 10 million yuan for the investment in the Shuicheng Iron and Steel Factory of Guizhou Province, the management of which was to be carried out jointly. The Shuicheng Iron and Steel Factory was also willing. But the departments concerned did not agree to this plan, because iron and steel are items in full supply, and the Shuicheng Iron and Steel Factory was going to be disorganized. In view of the whole situation, the Chongqing Iron and Steel Company cancelled its original plan. This was correct. Second, if the "self-allocated funds" of an enterprise are to be used for the projects of tapping potential, and technological innovation and restructuring and for the capital construction projects of enlarged reproduction, the funds must be differentiated in the light of specific conditions, though it is very difficult to differentiate them, so as to prevent the enterprise from enlarging the scale of capital construction blindly in the name of tapping potential, and technological innovation and restructuring. In addition, any enterprise that wants to use the "self-allocated funds" for enlarged reproduction must have the permission of the departments concerned. The enterprise must abide by the procedures of capital construction, and in no way can it dispose of the funds freely.

It is necessary to supervise and control the rewards, subsidies and overtime pay issued by the enterprises. It is stipulated in the document concerned that there must be limitations to the rewards issued. From the enterprises' point of view, it seems to be detrimental to bringing into play the initiative of the staff and workers. But under the present conditions in the whole country that many objective factors are affecting the level of the enterprises' profits, if there is no control over the system of rewards being directly connected with profits, then the enterprises which have high profits will issue excessive rewards. This will influence the initiative of the staff and workers of the enterprises which have low profits. In this case, some enterprises will even go so far as to raise the level of rewards until it is out of control. In fact, in violation of policy and in disregard of the whole situation, many enterprises have issued excessive rewards overtly and covertly under all sorts of pretexts. This has not only violated the principle of distribution according to work, but also created an important factor for the present inflation. This needs urgent rectification.

Fourth. The problem of unifying understanding and strengthening leadership demands prompt solution.

At present, some cadres in the municipal vocational departments and enterprises in Chongqing City are not ideologically clear about the question of enlarging the autonomy in enterprises. Some cadres are still yearning for the old system



of messing together, instead of making themselves accustomed to the new method of enlarging the autonomy in enterprises. Some cadres are still resentful, worrying that they will lose their authority and interests. The creed "when the man is there, the authority and interests are there; when the man leaves, the authority and interests vanish" is still doing mischief. Some comrades are anxious about the reform of the system, always feeling that it is too slow, and grumbling that other comrades are "ideologically conservative" and that they are lagging behind. In fact, there are objective reasons for those who are lagging behind ideologically. According to investigation, the document concerning the trial points in the "large-scale enlargement of autonomy" in the two enterprises were only issued to the economic commission of the enterprises that were carrying out enlargement of autonomy. Other departments did not know simultaneously, and the departments concerned did not carry out the necessary training and education of the cadres.

The enlargement of autonomy in enterprises, especially the further enlargement of the trial points of the system of "responsibility for one's own profits and losses" is an extremely complicated matter that involves a wide range of problems. Not only the economic commission and the financial and taxation departments will be the first to be affected by the experiments, but the planning, material, pricing and labor departments and banks are also closely related to the trial points. Not only the enterprises affiliated to the municipality must take part, but the military industrial departments and the enterprises affiliated to the department and the province must not stand idly by. Therefore, to carry out smoothly the reform of the economic system by starting with the enlargement of the autonomy in enterprises, the cadres of various economic departments must take part, powerful leading organs must be organized, the understanding of the cadres must be unified and the leadership must really be strengthened. This is an important problem which did not receive enough attention in Chongqing City before, and which demands prompt solution hereafter.

#### IV

Besides the above-mentioned problems, there is still an extraordinarily important problem in the trial-point work of enlarging the autonomy in Chongqing's enterprises, that is, the problem of how to handle correctly the relations between readjustment and reform.

At present, China is in the period of readjusting the national economy. If viewed from the present conditions, the task of readjustment cannot be completed in 3 years. It will take more time. So far as the relations between readjustment and reform are concerned, readjustment is the key link, the central issue; while reform must accord with readjustment, must be beneficial to readjustment. As to the question of readjustment, the departments in Chongqing concerned have done a lot of work and made many achievements. But there is still the question of insufficient understanding and of being slow in speed. During the readjustment, we feel that the voice for reform is loud, while the atmosphere for readjustment is not thick. It seems to some comrades that the readjustment work is almost through, and that the major task at present is to grasp the work of reform. Is this appraisal in accordance with the actual conditions of Chongqing? The answer is negative.

Chongqing is a comprehensive old industrial city, with industry as the principal part of its national economy. The main part of the present industrial foundation was formed during the "great leap forward" and the "third front" construction, with the characteristics of centering on military industry, machinery and iron and steel. For more than 20 years, because of the mistakes in directing the economic construction and because of the serious disruption by Lin Biao and the "gang of four," the principal relations of the proportion of Chongqing's national economy were seriously out of balance. They manifested themselves as follows:

1) Too much attention was paid to heavy industry, and too little attention was paid to light industry. Heavy industry was practically in the service of capital construction and in the service of heavy industry itself. According to statistics, in 1979, in the fixed assets belonging to industry, heavy industry accounted for 86.5 percent, light industry accounted for 13.5 percent; in industrial total output value, heavy industry accounted for 58.8 percent, light industry accounted for 41.2 percent. The fixed assets of the machine building and metallurgical industries accounted for 60.3 percent, the output value accounted for 45.7 percent. And in the output value of the engineering industrial products in 1979, the part that was used for serving agriculture, light and textile industry and the people's consumption only accounted for 23.7 percent. In the total output of steel, the small-scale steel products that could suit the demands in agriculture, weaving industry and urban construction accounted for 13.7 percent.

2) "Debt in respect of production" and "debt in respect of livelihood" are very outstanding. Many old enterprises have not undergone any reconstruction. Obsolete equipment, complicated structure of machinery and backward technology can all be found in them. And there are many dangerous workshops. In the 30 years since liberation, of the investments in capital construction in the Chongqing area, the investments in productive construction have accounted for 84.5 percent, while the investments in nonproductive construction have only accounted for 15.5 percent. The debt in respect of urban construction and people's livelihood has accumulated to 1.5 billion yuan. Among the 16 big cities throughout the country, the average dwelling area for each person in Chongqing City is only 3 square meters, ranking 13th. The average supply of water is 82.6 liters per person daily, ranking 10th (the criterion for the whole country is 100 liters. The summer season in Chongqing is scorching hot and it is known as one of the three big "ovens" throughout the country); every 10,000 persons have 1.1 public traffic automobiles on the average, ranking 13th. Every 1,000 persons have 3.2 medical beds, ranking 13th. Housing, water supply, dormitories in middle and primary schools, medical wards, and the commercial service network have not reached the minimum standards laid down by the state in the 1950's. And the foundation structure in energy, communications and building materials is very weak. The task of assigning the persons who are waiting for employment is very arduous. These facts show that in comparison with other cities, the task of readjusting the proportionate relations of the national economy is more arduous, and the relations of proportion are more complicated.

For more than 1 year, Chongqing City has really done a great deal of work and made initial achievements in readjusting the national economy. For instance, it has accelerated the development of light and textile industry, readjusted the proportionate relations of light and heavy industry and made the development speed of light and textile industry catch up with and surpass that of heavy industry. It has strengthened the agricultural foundation in the city, the suburban area and

the counties, and has begun to readjust the agricultural economic structure so as to maintain a high development speed in agricultural production. It has readjusted the enterprises, shortened the front of capital construction and readjusted the orientation of investments. The people's livelihood has improved on the basis of the development of production. But similar to the general situation all over the country, the readjustment task in Chongqing City is far from being completed. Not only has the serious disproportion not been fundamentally changed, but there has emerged a new situation and new problems in readjustment and reform, which can be generalized mainly as follows: 1) Most of the readjusted enterprises are "five small" enterprises of the districts and counties. The readjustment of the enterprises affiliated to the municipality and the departments above, especially of the engineering industrial enterprises (including the military industry) has been rather disappointing. Economic integration is practically still on the basis of individual enterprises. A breakthrough has not been made in the great integration of all enterprises under the principle of coordination among specialized departments. The integration of military and civil industry has just begun. 2) During the enlargement of enterprise autonomy and during the implementation of regulation by market mechanism, the scramble for profits between industry and commerce, the contention for raw materials between industry and agriculture, blind production and duplicate construction have become more serious, and blockade among districts has intensified. There are many measures for tapping potential and carrying out technological innovation and restructuring, which have not been brought into capital construction management. And there are many channels of funds for loans. These measures and funds for loans lack unified management, and it is hard to keep them in overall balance. In 1980, the total amount of these funds plus the investments in capital construction was more or less the same as in 1979. 3) The revenue turned over by the enterprises has dropped, and the increase in the budgetary receipts is slight. Between January and September of 1980, the revenue turned over by the enterprises throughout the city plus the income tax paid by the state run enterprises and the tax for fixed assets dropped by 8 percent in comparison within the same scope of the corresponding period of 1979, of which the revenue turned over by the industrial enterprises dropped by 10.4 percent. The financial budgetary receipts only increased by 1.49 percent. 4) The prices of goods on the market rose by a big margin. In the first half of 1980, the prices of consumer goods in Chongqing City rose by 9.4 percent, greatly surpassing the average rise margin of the whole country. This is also an important manifestation of disproportion and economic imbalance.

Therefore, in view of the whole situation in the national economy, the primary task in Chongqing's present economic work should still be readjusting the economic structure, but not the all-round restructuring of the economic management system. Of course, that does not in the least mean that the trial-point work in enlarging enterprise autonomy must stop and wait for the completion of readjustment. It has yet to be made clear that the present reform is to be carried out during readjustment and should be based on and serve readjustment. The practice for more than 1 year in Chongqing shows that the reform of enlarging the autonomy in enterprises is generally beneficial to readjusting the proportionate relations of the national economy. First, the enterprises have certain management autonomy to carry out production according to their needs, make the products marketable and reduce stockpiling and waste. Second, through enlarging autonomy, the enterprises will have certain "self-allocated funds" to renew their equipment, build living



quarters for the staff and workers and make up the debt in production and livelihood. Third, the enterprises can prolong the short supply of products and shorten the full supply of products, on the basis of enlarging autonomy and through joint management and partial transfer of the enterprises' assets. However, readjusting well the proportionate relations of the national economy which are seriously out of balance is after all the basis of the all-round reform of the economic management system. The reason is that there is a great difference between the enlargement of autonomy in individual enterprises and that in all or most of the enterprises. In the movement of commodities and funds of some individual enterprises, an enterprise can buy what it wants to buy, sell what it wants to sell and have loans it wants to have, not only theoretically but also practically. Nevertheless, the movement of social commodities and funds throughout Chongqing is being formed through the interlocking of the movement of commodities and funds of various enterprises. The various basic proportionate relations of the national economy must be kept in coordination so as to make the movement of social commodities and funds progress normally and to guarantee the supply, production and marketing of the products of various enterprises. But the present situation is just contrary to this. The situation has not fundamentally changed in which the proportionate relations of the national economy are seriously out of balance. Many enterprises have not enough production tasks, raw materials and fuel are short and products are unsalable. The bank is already in difficulty with its funds. Between January and October of 1980, the balance between deposits (including the bank's "self-allocated funds") and loans of the Chongqing People's Bank had reached 380 million yuan, and so it was not able to meet the demands for increased loans to the enterprises that had enlarged their autonomy.

It is obvious that the present task of readjusting the national economy of Chongqing is still very arduous. The conditions for all-round reform of the economic management system are not yet ripe. It will take some time to do a good job in readjustment work by concentrating our efforts. Under the centralized leadership of a unified organ, the economic departments must coordinate with each other so as to bring about a fundamental change of the situation in which there is disproportion. At present, we must do a good job in the trial-point work of enlarging the autonomy in enterprises, under the prerequisite of guaranteeing the carrying out of readjustment work. We must conscientiously sum up experience, lay emphasis on the study and solution of existing problems, strengthen planned guidance by the state over microeconomic activities and bring the initiative of the enterprises that are enlarging their autonomy on to the track of promoting readjustment. In short, we must correctly handle the relations between readjustment and reform, and make reform comply with and beneficial to readjustment. This is a fundamental question of whether or not Chongqing's national economy will further develop, and of whether or not the reform of the economic management system will progress smoothly.

## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' ON NATIONAL ECONOMIC READJUSTMENT

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[Article by Zhou Shulian [0719 0647 5571] of the Industrial and Economic Research Institute of the Chinese Academy of Social Sciences: "Theoretical Problems Concerning the Readjustment of the National Economy"]

[Text] For the past 2 years, our people have, under the guidance of the line adopted by the 3d plenary session of the 11th Party Central Committee, done a lot for the readjustment of the national economy and have achieved much success. It must be admitted, however, that the task of readjustment has not yet been completed. This is of course due to the magnitude and complexity of the task. But it is also because insufficient recognition has been given to the urgency of the readjustment and the implementation of the readjustment policy has not been thorough enough. Therefore, a theoretical study of the readjustment to deepen our understanding and unify the pace of the readjustment is essential for the further implementation of readjustment in order to bring about an early change in our national economy from a situation that is passive to one which is active.

#### The Main Tasks During the Readjustment Period

What are the main tasks during the readjustment period? Or let us ask another question: Why is a readjustment period necessary? These are the questions with which we must first come to grips. In carrying out economic work, general readjustments are frequently needed. Our present readjustment, however, is not of this type. Instead, it specifically requires a period for readjusting the national economy. It was originally estimated that 3 years would suffice. But now it appears that a longer period would be required.

The main tasks during the readjustment period are not to be decided by subjective aspiration but by the objective economic situation and demand. In other words, the main tasks should be set with due consideration being given to the actual national situation as well as to the contradictions in the existing economic life. At present, the outstanding problem in the national economy is the serious imbalance in the proportionate relations. For example, the disproportion between agriculture and industry is indicated by short supplies of farm and sideline products and in particular by the shortage of raw materials for farm products needed by quite a number of light industries. Energy shortages are indicated by the fact that many factories are unable to engage in normal production for lack of energy. Poor marketing and overstocking of some products shows that there is

underproduction as well as overproduction. There is also disproportion between accumulation and consumption with an accumulation rate of over 30 percent, exceeding the reasonable limit; extension of the scale of capital construction beyond our capabilities; and a financial deficit, an increase in the issuance of currency and an upward trend in prices. In the face of such serious disproportions in the national economy, the production and product circulation of enterprises are running into a lot of unsurmountable difficulties. Not only is it hard to be engaged in expanded reproduction but also to conduct simple reproduction smoothly. In these circumstances, it is imperative that top priority be given to readjusting the proportions in the national economy and putting right the serious disproportions. This is precisely why a longer readjustment period is needed.

After the smashing of the gang of four, we should have entered a readjustment period. At that time, however, we did not have an adequate understanding of the serious consequences caused by the sabotage by Lin Biao and the gang of four, particularly of the disproportions in the national economy and their consequences. As a result, we were unable to start the readjustment in time. It was not until after the third plenary session when the Party Central Committee put forward the policy of readjusting, restructuring, consolidating and improving the economy that the whole nation was ushered into a readjustment period. But there have been different views as to what the central tasks are during the readjustment period. Some are of the opinion that top priority should not be given to putting right the disproportions during the readjustment period. Instead, they think that speed should be placed before everything else and that only by attaining a high speed will the problem of disproportions be solved. This kind of view has been manifested in actual work. For instance, despite the fact that, compared with the end of 1979, there was a reduction of more than 200 large- and medium-sized capital construction projects under construction at the end of September, 1980, total investment in projects under construction did not diminish. Instead it went up. At the same time, more and more capital construction projects appeared under the pretext of tapping the potentialities of enterprises, restructuring and improving. There was blind production. Small cotton mills, tobacco factories, breweries, sugar refineries and paper mills were opened in various places in disregard of the overall economic effects, and they competed with large factories for raw materials. Why did this happen? A main reason is that some comrades still gave first priority to speed, neglecting the readjusting of the economic proportions.

The relation between proportion and speed has long been a subject of dispute. After 1958, in order to prove the correctness of the so-called "great leap forward," the argument that proportion should serve the needs of speed became prevalent. This was a main aspect of the "leftist" mistakes in the economic front and had been all along affecting the theoretical and practical aspects of our planned work. The fact that there was so much construction going on in a blind way and application of production during the readjustment 2 years ago indicates that this aspect was still playing a negative role in our economic work. The tasks during the readjustment period will not be completed smoothly if the relation between proportion and speed remains unclear.

Marxism has always maintained that coordination of the proportions of the national economy is a prerequisite for a smooth social reproduction and that the speed of



economic development is restricted by the national economic proportions. In Volume 2 of "Das Kapital," Marx analyzed specifically the conditions for realizing reproduction in a capitalist society. He pointed out that a social reproduction movement is not only a value compensation but also a material compensation. Consequently, it is restricted by the "interrelations among proportions of the value components of social products, their use value and their material forms."<sup>1</sup> Marx divided social production into two groups, means of production and consumption. Marx also divided the product value of each group into C, V, and M and examined the conditions for simple reproduction and expanded reproduction. He further pointed out that there was "a continuous to and fro movement" within each of the two groups. In his writings including "On The So-Called Market Problem," Lenin hypothetically advanced some new conditions to further develop Marx's research in this field. Such analyses by Marx and Lenin reveal that only when there is coordination in proportions between and within the two big groups as well as between accumulation and consumption can social reproduction be smoothly conducted. Furthermore, a close study of the reproduction pattern put forward by Marx and Lenin will also show that the speed at which social reproduction is developed is restricted by the proportionate relationships between and within the two big groups and between accumulation and consumption.

The capitalist society is the object of Marx's study of social reproduction. And the course of movement of capitalist economy has proved that his analysis is correct. For example, a capitalist economic crisis is brought about by the serious damage caused to the national economy when socialist production is in a state of anarchy. During a crisis, it is impossible to have high speed. Instead the speed will be drastically reduced and there may even be a great regression. If social reproduction and the speed of its development can be determined by people's subjective desire instead of being restricted by proportions, does this not mean that there will be neither economic crises in a capitalist society nor reduction in speed during such crises?

Is Marx's theory on restriction of speed by proportions applicable to socialism? Thanks to the inherent superiority of the socialist economic system, it is possible that the economic development in a socialist society may be faster than that in a society of days gone by. But it does not at all mean that socialist reproduction is no longer subject to the restrictions of various objective conditions (proportionate relationship is also a kind of objective condition). On the contrary, a really faster development of socialist economy must have coordination among all the main proportionate relationships as the prerequisite. Marx pointed out: "This **//necessity//** of the **//distribution//** of social labor in definite proportions cannot possibly be done away with by a **//particular form//** of social production but can only change the **//form//** in which it **//appears//**" [passages within slant-lines denote boldface].<sup>2</sup>

Under the influence of such a wrong theory as proportions should serve the need for speed, we have over a long period of time failed to comply with the requirements of the law that the national economy should be developed in a planned and proportionate way and we have blindly sought high speed. This would lead to a serious disproportion in the national economy, which in turn could bring about an economic crisis. Capitalist economic crises are a chronic malady of the capitalist mode of production and are an inevitable outcome of the contradictory

development between the socialization of production and capitalist ownership. With a socialist mode of production, there is no inevitability of economic crises, which are caused by people in the course of their work and are the result of implementing the wrong policies and violating the socialist law of economy.

The so-called "active balance" policy which gives top priority to attaining high speed is wrong. According to this policy, gaps are allowed in plans. This is termed a "long-line" balance. In fact this policy does not strive for an overall balance, which is belittled as a "negative balance." Under the influence of this policy, there have been gaps in our national economic plans over a long period of time and an overall balance cannot be struck. In the opinion of those comrades who advocate an "active balance," leaving gaps in the national economic plans when these disproportions can enable the economy to drive up at a high speed. But the fact is, implementing the so-called "active balance" policy will make the imbalanced situation of the national economy even worse. It follows that this kind of balance will never enable us to attain the kind of lasting and steady high speed which can bring about the best economic results which is required for our socialist construction. Comrade Chen Yun made a profound analysis of this question as early as 1962. "An overall balance is a proportionate balance," he said. "A balance will be struck in proportions." "To strive for a proportionate balance is in line with the objective law, and things will definitely not work out well if a proportionate balance is not reached." "In the past few years, we basically tried to strike a 'long-line' balance. But in doing so, the biggest lesson to learn is imbalance. Consequently, there has been a great overstock in materials and semi-finished products--hence a serious wastage. In this respect, the lesson we had in these few years is more than enough. Only when we try to strike a 'short-line' balance will an overall balance be possible." Comrade Chen Yun's views are a scientific summation of practical experience. Unfortunately, his views have not been taken seriously. Moreover, they were criticized as bearing wrong viewpoints. As a result, the view advocating an "active balance" has not been corrected in time.

The carrying out of our socialist construction also shows that seeking to attain a high speed will inevitably hinder and sabotage the normal course of production and construction and will invariably reduce economic effects, thereby affecting realization of the target of socialist production. Though our production growth rate and the total output value cannot be regarded as low, our economic results are very poor and are tending to get poorer. Compared with 1957, the revenue and profits in 1979 realized from every 100 yuan dropped from 34.7 yuan to 24.8 yuan, representing a decrease of 29 percent, while the amount of funds in circulation taken up by every 100 yuan of output value increased from 19.4 yuan to 31 yuan, an increase of 50 percent. There was a marked increase in the cost of capital construction works. Compared with the period of the first 5-year plan, the years 1976-78 saw the overall investment in each ton of steel increase from 1,360 yuan to 3,497 yuan, that in each ton of coal from 56 yuan to 179 yuan, and that in each cotton spinning spindles from 684 yuan to 1,250 yuan. During the period of the first 5-year plan, the required increase in investment for each additional yuan of national income was 1.68 yuan, 3.76 yuan in the fourth 5-year plan period and 3.2 yuan from 1976-1978. That is to say, for every additional yuan in national income, the amount of investment required has in recent years roughly doubled that required during the period of the first 5-year plan. Though our growth rate of

total output value is not low, because of the huge consumption in production and construction, and the serious waste and poor economic results, the increase in national income and social wealth that can really be distributed is not great. In addition, with the poor handling of the relationship between accumulation and consumption, improvement in the people's livelihood has been very slow. Now we must not go on like this any more. Through readjustment, we will take a road to obtaining significantly better economic results though the speed may not be so high, a road to greater increase in national income and social wealth and a road to improvement of the people's livelihood. In the future, even if we have got what it takes to increase the speed, we have to first strike an overall balance and consider the overall economic effects, and we should never make the mistake of blindly seeking high speed again.

### The Central Link in the National Economic Readjustment

To carry out readjustment work well, we must understand clearly its main substance, and in particular, we must grasp the central link of readjustment now. As pointed out currently by the central authorities, the central link in readjusting the national economy is reducing the scale of capital construction.

We have called for reducing the scale of capital construction for many years and have achieved certain success in the last 2 years. But the task is far from being completed. The reasons for this are many. One of the main reasons is that ideologically we do not understand sufficiently the meaning of reducing the scale of capital construction. Therefore it is essential for us to seriously examine why we have to grasp the central link of reducing the scale of capital construction during the present readjustment of the national economy.

In order to clarify this question theoretically, it is necessary to study the characteristics of capital construction and its influence on the national economic proportions. Compared with other production activities, the following are the characteristics of capital construction: (1) It consumes a great amount of materials. According to the actual rate of consumption, it is estimated that with every 10 billion yuan of investment, roughly 1,200,000 tons of steel would be needed for construction and installation purposes, 3 million cubic meters of timber and 5 million tons of cement. In addition, it would also require 1 million tons of steel for manufacturing electrical and mechanical facilities. Furthermore, because of the great amount of labor force involved, a large amount of the means of livelihood is required; (2) capital construction requires a longer period of time. To complete a large or medium-sized project, it often takes many years, during which a continuous injection of means of livelihood and labor force is necessary. "If the project is halted, the means of production and labor already consumed in production will be wasted. Even if the project is resumed, the means of production and labor will have been damaged during the suspension period."<sup>3</sup> (3) During this longer period of time, no means of production and livelihood will be provided; hence no income. (4) Upon the completion of a capital construction project, it would require more means of production and labor force to bring it into play. For instance, it would require raw and processed materials, fuel and power, the necessary transport facilities and the deployment of a fairly large number of staff and workers, and so on and so forth. Lacking in any of these requirements, a project will not be able to produce any products nor will it be able to bring



in any revenue. Because of these characteristics, the influence of capital construction on the ratio between accumulation and consumption, on the ratio between the two great categories, on the proportions among the different branches of the national economy, on the proportion between simple reproduction and expanded reproduction, and on the material, financial and credit balance is often greater than that of a particular material production department. Also, it will often have a noticeable effect on economic activities in many years to come.

Attaching great importance to the influence of capital construction on the proportions of capitalist economy, Marx delved into the role played by an expansion of the scale of capital construction in capitalist economic crises. In Volume Two of "Das Kapital" he analyzed in detail the various influences of sudden expansion of the scale of capital construction on social reproduction. For instance, (1) it "exerts pressure on the currency market," "because here, a continuous advanced payment of money-capital on a large scale over a long period is required;" (2) it "exerts pressure on the society's production capital available for allocation," "because the essential factors of means of production are being constantly taken away from the market, and the currency equivalent is introduced into the market to replace them;" (3) "the prices of the means of livelihood and production will all go up," "because there will be an increase in the kind of demand which is capable of making payments and which itself will not provide any essential factor supply;" (4) it will lead to "swindle which will be in vogue and there will be a massive capital diversion;" and (5) "in those departments of enterprises where production can increase sharply, there will be a sudden expansion to be followed by a collapse," and so on and so forth. In the past we did not pay much attention to these analyses which play a guiding role in our understanding the influence of capital construction. In addition, Marx emphasized that in a society which is not capitalist but communist, it must be first determined how much labor and means of production and livelihood can be used in capital construction without causing harm. "On the contrary, reason in a capitalist society will always play its part only after the event. Consequently it may and will inevitably lead to unceasing great chaos."<sup>4</sup> That is to say, it is impossible for a capitalist society to handle the scale of capital construction well, and this will invariably lead to economic crises. From this we can see that if a new society does not handle the scale of capital construction well, there could well be "unceasing great chaos." Elsewhere Marx also said, "Some enterprises have over a long period of time used up labor force as well as means of production without providing any useful products. On the other hand, some production departments have not only used up labor force and production means constantly or many times over but also have provided means of production and livelihood. We must ascertain on the basis of production of social ownership on what scale the former should be operated to avoid damaging the latter."<sup>5</sup> This again reminds us that we in a new society must draw a lesson from a capitalist society and determine correctly the scale of capital construction.

In order to explain clearly why reducing the scale of capital construction is the key link in the national economic readjustment, it is necessary to examine the existing scale of capital construction and its influence on the national economy as a whole.

The scale of our capital construction has been too large over a long period of time and it has remained so after 2 years' of rectification.

First, the scale is far greater than what the country's material resources can afford. In 1980, it was planned that 50 billion yuan should be invested in capital construction, but in fact it turned out that more than 50 billion yuan was invested. However, the amount of steel that can be used in capital construction can only meet the demand of investments of 31.2 yuan and 33.1 billion yuan respectively. As for projects for tapping the potentialities of enterprises, restructuring and improving which are outside the scope of the above-mentioned investments, the amount of steel we have can only meet a little more than half of the demand, cement 42 percent and timber less than half.

Second, it is also far larger than what our financial resources can afford. Because of the influence of the damage done by Lin Biao and the gang of four over a long period of time, the increase in financial revenue has been restricted in many ways. At the same time, more expenses have to be incurred to solve the leftover problems. In these few years the state has introduced such measures as readjusting the prices, raising the wages, and providing bonuses and job opportunities, thus increasing the income for the staff, workers and commune members. This is absolutely necessary. But since there is no corresponding reduction in the scale of capital construction, it has become larger in scale than the state's financial resources can afford.

If the scale of capital construction is not reduced, it will tend to expand. As mentioned above, though the big- and medium-sized projects all over the country were reduced in number in 1980, the scale of total investment had increased, and so has the number of small projects. In the first half of 1980, the number of technical projects under construction worth more than a million yuan was greater than the number of capital construction projects under construction for the whole of last year.

At present, the scale of our capital construction is too large. This has a negative effect on the national economy in various aspects, leading to or exacerbating the disproportions.

First, let us look at the influence the excessively large scale of capital construction has on the ratio between accumulation and consumption. Investment in capital construction mainly come from accumulation. If the scale of investment is too large, it will inevitably lead to excessively high accumulation. During the fourth 5-year plan period there was an average accumulation rate of 33 percent. In 1976 and 1977 it was 31.1 percent and 32.3 percent respectively. The year 1978 saw the investment in capital construction increase from 364,000 million yuan to 480,000 million yuan with the accumulation rate increasing to 36.5 percent, the third highest rate in our history, next only to the 1959 and 1960 rates. It was still 33.6 percent in 1979 when our per capita national income was 347 yuan, ranking fairly low among the hundred-odd countries and regions in the world. This income level restricted both consumption and accumulation. For the past 2 years, people in our cities and rural areas have increased their income by a large margin, yet there has been no reduction of the scale of capital construction. This leads to an abnormal situation where the total of accumulation and consumption exceeds the national income, indicating that there is a serious disproportion between accumulation and consumption.

Secondly, let us examine the influence of an excessively large scale of capital construction on the proportionate relationships among the different branches of the national economy. Normally we should gradually solve the problem of disproportions among the different branches of the national economy through capital construction. But as the scale of capital construction is so large, it makes the problem of disproportions even more serious. For example, in 1980, a number of processing factories such as small silk factories, tobacco factories, breweries, paint factories and soap factories were established blindly in various places. These factories use farm and sideline products as raw materials. They compete with old factories for raw materials. Though small and backward, they vie with the big and advanced factories. In addition, they also intensify the contradiction between raw materials from farm products and the processing industry. An excessively large scale of capital construction will also intensify the contradiction between the supply and demand of energy. This is not only because energy has been consumed by too many projects, but also because the gap between the supply and demand of energy widens after the completion of many of the projects. We have in the past introduced 13 sets of equipment for chemical fertilizers. But only six and a half sets were fully utilized for lack of oil and gas. The year 1978 saw the signing of contracts for the introduction of projects which would require much oil and gas, thus further aggravating the energy problem. Also, an excessively large scale of capital construction will make the distribution of investments among departments more difficult. As in distributing investments, the original scale of construction has to be considered. As a result, additional investments were often distributed to departments that should not have received these investments and were denied to those that should have. For instance, despite the fact that there is a heavy demand for our communications and transportation, investments in the railways and other communications facilities were reduced in 1979 because of the difficulty in making reasonable arrangements resulting from an excessively large scale of projects under construction.

Third, as regards the influence on the relationship between simple and expanded reproductions, the principle of advancing production is to have simple reproduction first, followed by expanded reproduction. An excessively large scale of capital construction will, however, violate this principle. These circumstances, it is hard to realize expanded reproduction and it will also cause disruption to simple reproduction. Statistics reveal that in 1979, of the 95 projects that had been completed and put into operation, 42 were not given full play for various reasons. This has more or less something to do with the fact that the scale of capital construction was too large. Of these 42 projects, 12 could not be engaged in normal production for lack of materials and fuel, while another 13 did not have enough production assignments and their products did not sell well. These are the examples illustrating the fact that it is hard to realize expanded reproduction. At present, quite a number of our existing enterprises are operating under capacity because there are not enough raw materials, fuel and power. This is an example of how simple reproduction has been damaged.

Fourth, regard the influence on the three major balances between the supply and demand of materials, between financial revenues and expenditures, and between bank loans and repayments. Comrade Chen Yun once pointed out that in our planned work, attention must be paid to achieving these three major balances, which will invariably be upset by an excessively large scale of capital construction. As



capital construction consumes a lot of means of production without providing any products over a long period of time, it will lead to an imbalance between the supply and demand of materials if the scale is too large. Much of the shortage of quite a lot of materials results from an excessively large scale of capital construction. Investments in capital construction mainly depend on the states financial appropriations. An excessively large scale of capital construction and overinvestment will not only affect other financial expenditures, but will also lead to deficits and an overissuance of currency, affecting the balances between financial revenues and expenditures and between bank loans and repayments. The fact that our scale of capital construction has been too large is the major reason why we have had deficits and an overissuance of currency for the last 2 years.

Finally, an excessively large scale of capital construction will affect the national economic results in many ways. (1) Since many projects cannot acquire in time the necessary funds and materials in the course of construction, the period of construction will be extended and the costs increased. (2) Even if some projects are completed, they cannot engage in normal production for lack of raw materials, fuel and power. (3) Capital construction competes with the existing production; in other words, expanded reproduction competes with simple reproduction. (4) The products produced by blindly-established small factories are of poor quality. Yet production of these products consumes a lot, the costs are high, and they do not sell well. Consequently these products are overstocked while the big factories are compelled to reduce or even stop production. (5) An excessively large scale of capital construction will inevitably lead to the cancellation of many projects, thus creating waste.

In short, if the scale of capital construction is not reduced, it will be difficult to solve the problem of disproportions for many major branches in the national economy, to coordinate some of the basic proportionate relationships and to change the entire economic work from a passive position to an active one. Therefore, we must reduce the scale of capital construction from now till it is sufficiently reduced and treat this task as the central link of the readjustment work.

Some comrades are worried that reducing the scale of capital construction will have a negative effect on the national economy. In particular they are worried that there will be a negative effect if the scale of capital construction is sufficiently reduced. But it should be pointed out that when we advocate reducing the scale of capital construction, we mean that only the portion which is excessive should be reduced, and when we say capital construction should be sufficiently retrenched, we only mean that it should be retrenched within the limits of our country's material and financial resources. Our suggestion is intended to avert the various consequences brought about by an excessively large scale of construction. It should also be realized the retrenchment of the overall scale of capital construction does not mean a retreat for all trades. On the contrary, there should be more rapid development for those branches in the national economy which are in great demand such as agriculture, light industry, energy and transportation. In order to realize the rapid growth in the essential kinds of capital construction, it would be wrong to make a blanket reduction in all types of capital construction projects.

Of course, in the course of reducing the scale of capital construction, there will be problems and difficulties. Suspended or delayed projects need to be maintained.

While some of the construction workers may have to be laid off, there may also be problems in the marketing of the products produced by some departments and enterprises, thus affecting our financial revenues. Also, a reduction in some projects may affect future expanded reproduction. Basically these problems and difficulties arise not out of readjustment, but out of an abnormal development of the economy resulting from an excessively large scale of capital construction in the past. To achieve the maximum positive result and to minimize the negative effects of retrenched capital construction, we must pay attention to the study of the quantitative limits of a suitable capital construction scale. Once we find out these quantitative limits we will have a more scientific basis for a retrenchment in capital construction. In short, we have to seriously examine and satisfactorily tackle the possible problems and difficulties that might arise during the course of reducing the scale of capital construction.

Apart from reducing capital construction, there are other tasks in many fields in readjusting the national economy. These include readjusting the proportionate relationships between industry and agriculture, between light and heavy industries, between agriculture, light and heavy industries, as well as between production and communications and transportation. In addition, there are also the tasks of readjusting the relationships between production and circulation, accumulation and consumption and economic and scientific education. Moreover, there are many specific tasks in every field and the importance of all these varies with the times. All districts and departments should proceed from reality and carry out readjustment work in line with the local conditions and in keeping with the times in an effort to raise the economic results.

#### Strengthening and Improving the Guidance of the State Plan for Macroeconomy

This readjustment of the national economy is carried out concurrently with the restructuring of the economic management system, which provides the readjustment work with favorable conditions. In view of the fact that the autonomy of enterprises has been augmented, and the unitary regulation by planning mechanism has been changed so that there is an integration of regulation by planning mechanism and regulation by market mechanism, the enthusiasm of the enterprises, the staff and the workers are aroused and it is possible to remedy the imbalance between production and demand. All these are favorable conditions for the national economic readjustment. But there are contradictions between readjustment and restructuring. While readjustment demands more centralization and unification, restructuring maintains that the decisionmaking powers of localities and enterprises should be increased. To make readjustment and restructuring promote each other, readjustment must be taken as primary and correctly handle the relationship between them. That is to say, while readjustment should create conditions for restructuring, restructuring should accord with readjustment, be favorable for readjustment and serve the needs of readjustment. At the same time, the guidance of the state plan for the macroeconomy must be strengthened. Only then will we be able to bring the positive role of restructuring into full play, prevent and solve certain problems that might crop up, and promote the smooth fulfillment of the readjustment work.

However, at the present time, we do not understand the meaning of strengthening the guidance of the state plan well enough and the importance of planned work is

ignored. To some comrades, the change in unitary regulation by planning mechanism means that the guidance of the state plan is not as important as it used to be, so they do not improve and strengthen planned work. Some think that regulation by market mechanism conflicts with regulation by planning mechanism and neglect the planned guidance of the national economy, while some think of planned guidance as conflicting with augmenting the autonomy of enterprises. They are worried that emphasizing planned guidance would stop enterprises from being brought into full play. All these views are unfavorable to the readjustment work.

Why must the guidance of the state plan for the macroeconomy be strengthened?

First, socialist economy is planned economy. A planned development of the national economy is a major distinction between a socialist society and a society of days gone by and is also one major superiority of the socialist system. Only by strengthening the guidance of the state plan will we be able to develop the national economy in a planned way. At present, many of the problems in our economic life are caused by the shortcomings of the planned work. Over a long period of time plans have been treated subjectively. Consequently our planned work is disrupted. The national economy is left to drift along and is in a state of anarchy insofar as production is concerned, causing serious disproportions. The purpose of introducing readjustment is to remedy the disproportions. It follows that as a matter of course the planned work should be strengthened. The reason we have to change the unitary regulation by planning mechanism is because it does not comply with the requirements of the socialist economic law, particularly those of the law of commodity production and value, and is favorable neither to the planned proportionate development of the national economy nor to the strengthening of the guidance of the state plan. Therefore, the correct conclusion that should be reached after summing up the lessons drawn from past experience is that the guidance of the state plan must be strengthened, not weakened.

Second, to carry out regulation by market mechanism, it is necessary to strengthen the guidance of the state plan. To carry out regulation by market mechanism is favorable for enlivening the national economy, and in so doing, it adds to the task of planned work instead of lightening it. Some comrades think that regulation by market mechanism with regulation by planning mechanism because they do not understand the nature of socialist commodity economy, nor can they see that the characteristic of this economy lies in the fact that it is also a planned economy. Socialist commodity economy is not completely different from planned economy. In fact, the relationship between the two is one of inter-infiltration. There is always a certain degree of spontaneity with commodity production. With the guidance of the state plan as the prerequisite, the spontaneity of socialist commodity production could be eliminated. We have advanced commodity production and widened the scope of the market economy now, but if we do not strengthen the guidance of the state plan, spontaneity will increase, and there will be blindness in production, circulation and distribution. Judging from the existing situation, regulation by market mechanism in the economy has not been completely brought into line with the state plan. This creates many difficulties for enterprises, causing a situation where enterprises do not have adequate tasks, raw materials, fuel or power and where products are overstocked. Besides, this also strengthens the spontaneous factor in the national economy and hinders the fulfillment of the readjustment tasks. Therefore it is a matter of top priority to strengthen the guidance of the state plan in regard to the macroeconomy.



Third, to augment the autonomy of enterprises, it is also necessary to strengthen the guidance of the state plan. It is essential to increase the decisionmaking powers of enterprises step-by-step and in a planned way so that the enthusiasm of enterprises can be brought into full play. But the enthusiasm of enterprises must be brought into line with the state plan, and this calls for strengthening the state guidance in regard to the macroeconomy. If the autonomy of enterprises is augmented in a situation where the guidance of the state plan is forsaken or ignored, then production will be in a state of anarchy, thus exacerbating the imbalance in the national economy. In order not to lose control over capital construction, the growth of wages and welfare and the change in the prices, it is a top priority task to strengthen the guidance of the state plan.

For enterprises themselves, the autonomy in management and administration can be realized only when the state has strengthened its planned guidance of the macroeconomy so that the supply of the required equipment, power and raw materials is ensured and so that there is a market for the products. In view of the current serious imbalance, it is of particular importance to strengthen the planned work in regard to the macroeconomy. Only then will we be able to ensure a smooth augmentation of the autonomy of enterprises.

It should also be realized that in the existing planned work, there are serious shortcomings which require attention. For example, in guiding ideology, there are people who are still blindly seeking high targets and ignoring the need to strike an overall balance. Often in our readjustment work, there are a lot of general appeals made with few concrete arrangements. Since the rules as to what should be developed, restricted and reduced are not concrete enough, there have been instances where people rush headlong into doing or discontinuing doing something, while some correct arrangements have not been implemented conscientiously.

To strengthen the guidance of the state plan, it is necessary to examine some of the major problems in the national economy such as the direction and the growth rate of the national economy, the major industrial structure, the ratio between accumulation and consumption, the scale and direction of investments and the income and consumption structures of residents in the cities as well as in the rural areas. At present, we have to be particularly serious in examining those major economic problems during the readjustment period. For instance, it is true that we must retreat in capital construction. But how far should we retreat? We will then have to study the various policies of reducing the scale of capital construction, weigh the advantages and disadvantages of these policies and make our choice. Secondly, capital construction varies from sector to sector. While the future production in some sectors will be unaffected after a retrenchment, other sectors happen to be weak links and their situation will become even worse. In addition, there are some which are essential for maintaining simple reproduction. All these have to be treated on their merits. Third, it is imperative that we should get out of the red, but how are we going to do it? To this end, we also have to consider carefully the different consequences brought about by different ways of doing it.

Judging from the existing situation, it is necessary for the planning departments at all levels to step up market investigation and forecast such things as the production trend, the market trend, the purchasing power and the nature of consumption

and so on and so forth. At present, work in this respect is very unsatisfactory, affecting not only the planned guidance of regulation by market mechanism in the national economy, but also that of the national economy as a whole. Many examples of blind production and construction exist for lack of market investigation and forecast.

Then there is the problem of how to strengthen the guidance of the state plan. As the central authorities have rightly pointed out, in readjusting the national economy, we have to exercise the necessary administrative intervention in addition to adopting all kinds of economic means. In the past, we mainly, and even only, used administrative means to practice economy, making the national economy very inflexible. This violates the objective economic law. One aspect of the substance of reforming economic management system is to discard the unitary administrative means and introduce an integration of economic and administrative means. In this respect, the direction is correct. Therefore, criticizing the adoption of only administrative means is not tantamount to saying such means should be completely discarded, and stressing economic methods does not mean that all administrative means should be done away with either. Moreover, economic means are not without limitations, for they are based on the law of value, which alone will not be able to ensure the correct direction of socialism. It follows that in practicing economy, a socialist country should at all times try to have economic and administrative means integrated. Political ideological work should be stepped up, too.

During the present readjustment period, the role played by administrative means should not be ignored in the least because of the following conditions: (1) The restructuring of our economic system has just begun and the original system is still functioning. As the market mechanism is subject to great restrictions, full play has not been given to many of the economic means. (2) The serious imbalance is not only imposing restrictions on the restructuring of the economic system but also directly restricting the part played by the economic means. (3) There is also a problem of integration with the economic means. It is only when all the economic means are integrated in practice that the expected results can be achieved. However, integrating economic means requires the accumulation of experience and there is a process for it. (4) To give full play to economic means, we must also have sound economic legislation and judicature. It is hard to catch up in work of this type overnight. (5) The readjustment period is in a sense an extraordinary one. To meet the demand that some of the serious problems in the national economy be solved as soon as possible, administrative means are more suitable than economic means. In short, during the readjustment stage, we must firmly further enliven enterprises and the economy. Where the problem is a major one and is of great importance to the overall situation, we should let the state intervene administratively. These two aspects should be well integrated.

In 1962, Comrade Chen Yun pointed out that at that time there were "mainly two ways to overcome the economic difficulties. One was more centralization and unification and the other was going about things steadily and surely. By centralization and unification I mean that, having granted localities and enterprises the necessary reserve financial resources, we should centralize all the capabilities." These two ways should also become the guiding ideology for overcoming the difficulties during this readjustment.

#### FOOTNOTES

1. Marx: "Das Kapital" Vol 2, People's Publishing House, 1975, p 438.
2. Selected Works of Marx and Engels, "To L. Kugelmann 11 July 1868," Vol 4, p 368.
3. Marx: "Das Kapital," Vol 2, p 257.
4. Marx: "Das Kapital," Vol 2, pp 350-351.
5. Marx: "Das Kapital," Vol 2, pp 396-397.

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## NATIONAL POLICY AND ISSUES

### PRC ECONOMIC JOURNAL ON FURTHER ADJUSTMENT

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[Article by Gui Shiyong [2710 0013 6978] of the Research Office under the State Planning Commission: "On the Characteristics and Significance of Further Economic Adjustment"]

[Text] To further readjust the national economy is the central task of current economic work. After 2 years of economic readjustment, why should we put forth the task of further economic readjustment? What are the characteristics and significance of this readjustment? It is quite necessary to analyze and search out and study these problems so as to achieve unity in thinking and resolutely carry out the party's general and specific policies as well as the various measures for readjustment.

This Readjustment is a Sober and Healthy Readjustment Carried Out in an Excellent Situation, to Eliminate Potential Dangers.

The task of further readjusting the national economy was put forth when on the one hand, the economic situation is excellent in general and on the other hand, there are potential dangers in it. This is one of the prominent characteristics of the current economic readjustment.

Why do we say that the current economic situation is excellent but there are still potential dangers? Is this appraisal not self-contradictory? We hold that this appraisal is precisely the result of an all-round and practical analysis of the situation and reflects the characteristics of our economy, which finds itself at an important turning period. The most prominent and most important evidence of the excellent situation is the steady improvement of conditions in China's rural areas which have a population of 800 million. Since the 3d plenary session of the 11th Party Central Committee, due to the implementation of the series of correct party agricultural policies of and the rousing of the enthusiasm of rural cadres and commune members for production, agricultural production has increased steadily and the income of the peasants has increased constantly. The rural economy is becoming more and more lively day by day. In agriculture, we reaped a bumper harvest in 1979, with grain output showing an increase of 54 billion jin over 1978, and setting a new record. Oil-bearing and sugar crops and other industrial crops showed great increases as well. A comparatively good harvest was reaped in 1980 despite serious floods in the south and serious drought in the north, fairly uncommon phenomena during the last decades. Although grain output was 30

billion jin less than that in 1979, it was still 20 billion more than in 1978, a bumper year. The cotton output increased by a large margin, with total output reaching over 52 million dan, a nearly 20 percent increase over 1978, and a record high in the history of the PRC. Apart from lower output of ambary hemp, and tobacco, other industrial crops increased in varying degrees. The diversification of the rural economy and the side-line occupations of the commune members developed more notably than the past. Due to the growth of agricultural production and the rise of the state's purchasing prices for agricultural and side-line products, the average total income of every peasant in 1980 reached 170 yuan, an increase of 53 yuan over that in 1977 and a 13 yuan rise over the total increase in income during 20 years from 1956 to 1976. In many localities, including poverty-stricken areas, the living standards of the people have improved remarkably. The broad masses of the peasants feel secure and happy. Relations between the cadres and the masses have greatly improved. This is one of the best rural situations since the founding of the PRC. Over the past 2 years, industrial production has increased steadily and the industrial structure and product mix have improved. The initial reforms of the economic system has brought new vitality to the economy, resulting in improved economic effect. On the basis of developed production, the living standards of the broad masses of the workers and staff members have improved in varying degrees. Some 1.6 million people in cities and towns were found employment in 1979 and 1980. Since 1977, nearly 80 percent of the workers and staff have had wage hikes. A bonus system has been instituted in all enterprises and undertakings, and in addition workers and staff have been subsidized by the state against the increased selling prices of eight nonstaple foods. The average wages of the workers and staff in units under ownership by the whole people showed an increase of some 200 yuan in 1980 compared with that in 1977, a rise of over 30 percent and an increase in real terms of over 15 percent, allowing for price rises. Market supplies are also good. On the basis of increased income of the people in urban areas, social purchasing power has increased greatly. The growth of the total volume of retail sales has been rapid. The supply of common commodities has been improved compared with the past and supply volume of goods of better and higher quality has risen at an increasingly high speed. All of these facts are further proof of the correctness of the principles and policies formulated since the 3d plenary session of the 11th Party Central Committee and the 8-character policy of readjustment, restructuring, rectification and improvement. Under the guidance of these principles, our economy is turning in a proportioned and coordinated direction suited to China's conditions, with a new structure emerging in our economy. This trend is promising.

However, we must see the contradictions and difficulties in this turning period strictly according to the facts, adequately appraise the potential dangers latent in these contradictions and difficulties and adopt correct countermeasures. The comprehensive expressions of the problems existing in current economic work are the big financial deficits in 2 successive years, the overissue of currency and the price rises for many commodities. Since social production and the supply of commodities have increased and bank deposits have been increasing year by year, the banks issued less currency so that the figure of financial deficits and the scope of price rises was less than that of currency in circulation. With regard to the people in cities and towns, the price rises have effected their living standards, but owing to their greatly increased cash income, the effective living standards of the people have increased in varying degrees. Precisely because of

this, we say that the dangers are still in latent state and have not yet broken out. But if we do not adopt resolute measures to further readjust the economy and let the imbalances between finance and credit continue to develop, then, the market prices will go up unchecked and the economic gains of the workers and peasants in the past 2 years will be lost. Should this situation emerge, not only will the economy not be stabilized, the political situation of stability and unity will also be endangered. Today's readjustment is quite different than that of 1961. At that time the crisis had broken out, and industrial and agricultural production had decreased drastically; there were serious shortages of commodities in the markets; market prices went up, and many people had not enough to eat. All of us deeply experienced the serious economic difficulties. The difficulties we are facing now have emerged at a time when the economy is turning more and more for the better. On the one hand, production has expanded steadily, living standards have improved step by step and the whole situation is excellent. And on the other hand, some serious problems concerning finance and prices have cropped up. From the angle of a unit or a locality, we may not see clearly the sense the directness and seriousness of these problems, but from the angle of the whole and overall economic situation, there do exist practical destabilizing factors. It is better for us to be resolute from now on to consciously adopt measures for readjustment, eliminate the potential dangers, and stabilize the economy, thus forging ahead in a better way, than to let the destabilizing factors continue to grow and endanger the healthy development of the whole economy. If we say the economic readjustment in 1961 was carried out at a time when the crisis had broken out and we were largely forced to take action, then, the current readjustment is being carried out when the situation is excellent and we soberly see the potential dangers, and carry it out on our own initiative. This shows that our party is practical and highly responsible to the people, and that encouraging progress has been made in raising consciousness and avoiding blindness in our economic work.

This Readjustment is the Logical Development of the Readjustment We Started 2 Years Ago and the Further Implementation of the Policy of Economic Readjustment Set Forth After the 3d Plenary Session of the 11th Party Central Committee.

Why did the financial deficits and price fluctuation occur after the readjustment had been in progress for 2 years? Was there something wrong with the readjustment? Judging the situation solely by its appearance easily leads to questions of this kind. But if we pierce through the phenomena to analyze the internal relations of the economic activities, we shall come to the opposite conclusion, that is, the financial deficits and price fluctuation were caused by the readjustment in the past 2 years not being carried out in an all-round and resolute way and are the product of the readjustment yielding prominent results in some aspects but not being implemented efficiently in others.

For a long time in the past, due to "leftist" impatience for success in economic construction, plus the fact that Lin Biao and the "gang of four" sabotaged our economy for 10 years, some branches of the national economy became basically and seriously out of proportion. In the distribution structure of the national income, the excessively high accumulation rate and poor accumulation results affected the normal growth of the consumption of the people. In the industrial structure, heavy industry was given one-sided stress while agriculture and light industry did not receive the deserved attention, while the growth of the processing industry



surpassed feasibility in the supply of fuel, power and raw materials. The advocacy of the eight-character policy of readjustment, restructuring, rectification and improvement, with the stress on readjustment, in early 1979 marked the beginning of doing economic work in a practical way. Over the past 2 years, under the guidance of this principle, the party and government have adopted a series of measures for readjusting the economy in light of the imbalances, scored great achievements. First, by greatly raising the purchasing prices of farm and side-line products, increasing the income of the workers and staff and instituting the bonus system, we have raised the consumption level of the people both in towns and the countryside. Although some measures were carried out at a faster pace, and the expenditures topped those originally planned owing to lack of strict control, taken as a whole, these measures have played a tremendous role in improving the living standards of the people and arousing the enthusiasm of the broad masses of the workers and staff as well as the commune members for production. Through this readjustment, the proportion of accumulation in the distribution of the national economy fell to about 31 percent in 1980 from 36.5 percent in 1978; the proportion of consumption increased correspondingly from 63.5 percent in 1978 to some 69 percent. This has created favourable conditions for further coordinating the proportions between consumption and accumulation. Next, we have vigorously developed agriculture and light industry and helped the various sectors of heavy industry serve agriculture and light industry better, thus promoting improvement of the proportional relations between agriculture, light industry, and heavy industry. The proportion of the output value of light industry in the total industrial output value increased from 42.7 percent in 1979 to 46.7 percent in 1980, and in the output value of light industry, the proportion of the output value of the other sectors outside the light industry departments was over 31 percent. These changes in the structure of output value have brought closer relations between economic development and the improvement of living standards. Furthermore, the improvement of the industrial structure and the development of energy conservation have yielded prominent results in creating more social wealth with less energy. All of these facts show that the national economy is moving ahead toward the predetermined goal of readjustment, and the excellent economic situation as a whole is exactly the fruit of the series of readjustments we carried out in the past 2 years. Without these readjustments, the excellent economic situation would not exist today and on the contrary, the imbalances of the economy would have become more serious and the difficulties greater.

Since the readjustment in the past 2 years was correct in orientation and achieved prominent results, why should there be financial deficits and price fluctuation? The main reason is that in the situation in which consumption increased drastically and state revenue decreased, various administrative expenditures continued to increase although the investment in capital construction by the state was brought down a little, but not enough. Therefore, while consumption increased at a faster speed, accumulation did not decrease correspondingly. As a result, the total sum of distribution of consumption and accumulation surpassed the national income, and the total amount of state expenditure for capital construction and for consumption purposes surpassed state revenue. In addition, although the proportion of daily consumer goods of agriculture, light industry and other sectors developed increasingly, they could not meet the fast increasing needs of social purchasing power. This is because on the one hand, the change of the proportion of the production of capital goods and consumer goods is restricted by the already formed productive

capacity, natural resources and many other conditions and needs to undergo a process, and on the other hand, we have not efficiently grasped the development of the production of consumer goods, thus resulting in slow progress in the readjustment and reform of industry. As a result, while the financial deficits were large, the bank issued too much currency and the money in circulation increased enormously while the increase of the commodity supplies on the market could not keep pace with the great increase of the social purchasing power, with the result although bank deposits increased considerably, the prices of many commodities rose, which endangered the economic stability and the settled life of the people. This situation shows clearly that the problems in finance and commodity prices were mainly the result of the principle of economic readjustment being not carried out in an all-round and efficient way.

Proceeding from the above-mentioned actual conditions, to solve the problems of finance and prices, we should be determined not only to drastically reduce investment in capital construction but also to vigorously cut the various administrative expenditures, to appropriately control the growth of consumption and make great efforts to raise economic effect so as to achieve a balance between the national income and the total amount of the national income used in production and distribution and an overall balance between revenue and expenditure as well as a credit balance. In addition, we should further readjust the industrial structure and speed up the production of consumer goods so as to increase the supply of commodities which sell well on the market, in order to balance market supply and demand. It is obvious that these measures are nothing but the continuation and development of the readjustment that started 2 years ago and the requirement of further implementing this readjustment in a more comprehensive and firmer way.

**There Are Both Progress and Retrogression in this Readjustment, Partial Retrogression Will Ensure Better Progress.**

The actual economic situation requires us first to curtail in this readjustment the excessive investment in capital construction and the various expenditures and insure that they correspond to the level of the nation's strength. At the same time, processing industries which exceed feasibility in the supply of fuel, power and raw materials should be reduced and controlled and some excessive production targets should be lowered. That is to say, to do all this requires a certain degree of retreat and full implementation. What we mean by saying that we did not carry out the readjustment in the past 2 years in an all-round and efficient way mainly refers to those fields where retreat was required but was not carried out sufficiently or even not at all. Now the readjustment in these fields must be made up. To do this will naturally bring some difficulties and losses. For instance, some construction projects which are not in urgent need or lack suitable conditions for construction and production must be halted or suspended, and the production tasks of some factories, the machine-building factories in particular which formerly served capital construction will decrease and their orientation of production must be readjusted anew according to changed social demands. But this is the necessity for coordinating the proportions of the economy and for ensuring the steady and continuous advance of the national economy. Otherwise economic stability cannot be ensured, and greater losses and difficulties will result. So, this retreat is an orderly retreat aiming at the better progress of the overall situation. This retreat itself contains positive significance.

However, retreat is not the only content of economic readjustment. Economic readjustment requires the fields where progress is demanded to go forward as fast as possible if objective conditions permit. It must be pointed out that the reduction of the excessive investment in capital construction and various administrative expenditures will provide only an important condition for the coordinated development of the economy and also provide the possibility for the progress of the overall situation. To turn this possibility into reality and to really accomplish coordinated development of the economy, further efforts must be made to create other conditions for vigorously promoting production and improving the industrial structure and economic effect. Progress in this aspect is not only similarly an important content of economic readjustment but is also of great significance from a fundamental and long-term point of view. The readjustment of the total distribution amount of the national income and distribution ratio will undoubtedly play an important role in the healthy development of the national economy; especially under the conditions of socialist planned economy, this role is more direct and prominent. However production determines distribution. The readjustment of the ratio of distribution in the final analysis is restricted by the total amount of social commodities and their structure. If our energy and action are confined to the distribution field and no enormous efforts are made to increase and improve production and economic effect, it is impossible to achieve the goal of economic readjustment. It is clear to all that if no efforts are made to increase the national income and financial revenue, the balance between finance and credit achieved solely by curtailing expenditures will be objectively limited to a certain degree and hard to sustain for long; equally, if no vigorous efforts are made to improve the industrial structure, the readjustment of the proportional relationships between consumption and accumulation will lack a material base. The decrease of accumulation rate and the increase of consumption rate will cause the means of production to stockpile or a large amount of productive capacity to stand idle. At the same time, a situation will emerge in which the supply of consumer goods falls short of demand. All these are very detrimental to the coordinated development of the economy.

Specifically speaking, there are many fields in which progress is required during the economic readjustment. For instance, the production of social necessities should be developed; the construction of energy and transport, the construction of housing and urban public utilities and the cause of science, education, hygiene and culture should be strengthened as much as possible; the various reforms conducive to readjustment should be kept going; the professional and technical training of the workers and staff should be launched extensively in a planned way, and made it regular and systematic. The work in these fields should be done well. But at present, the most important thing is to firmly grasp and do a good job in the following aspects:

First, further speed up the growth of production of the daily necessities and civil construction materials from agriculture, light industry and other sectors and ensure the quickest possible breakthrough in both quality and quantity of consumer goods that sell well on the market. This is an important link for solving the numerous contradictions in our current economic work, and also a strategic measure to ensure the long-term and steady growth of the economy in the days ahead. From a short-term point of view, the production of light industrial products and civil construction materials is worth our particular attention, because whether in



balancing revenue and expenditures and balancing the market, or in saving energy and expanding employment, the speeding up of the development of production of consumer goods is required. It is conceivable that on the basis of investigation and studies, we can choose 10 or 20 of the products which are urgently needed in cities and the countryside, whose production can be increased. Unified planning should be made ranging from the supply of raw materials, the patterns of products, and the organization of production to the sale of the products. The readjustment of economic system and technical transformation should be combined together. The barriers between different trades and regions should be broken and the necessary finances, materials and technical strength should be concentrated. Output of these products should be doubled, with quality guaranteed, as soon as possible. It is justified to say that this is entirely possible of realization. Take the bicycles, wrist-watches and sewing machines made in Shanghai for example. So long as the barriers between different trades and regions are broken, a good job is done in coordination between specialized departments, and the necessary technical transformation is carried out, the productive capacity will increase greatly at a fast pace. Even in producing products such as television sets and cameras which require comparatively sophisticated techniques, no difficulties are insurmountable, so long as concerted efforts are made to tackle key problems. The problem lies in the fact that we must truly attach great importance to it, be resolute and do meticulous and good organizational work. The work done in this field will not only greatly develop the production of consumer goods but also promote the improvement of the whole industrial structure and supply new experiences in reorganizing industry and reforming the economic system, thus having a far-reaching influence on the whole of economic development.

Second, take a firm hold of saving energy in an earnest way. At present and for a long time to come, output of energy cannot be increased much and may even fall a little. This is a new condition we are encountering in this readjustment, a condition quite different from that one we encountered in the readjustment in the early 1960's. Under these circumstances, we should attach extreme importance to strengthening the production and construction of energy; and along with this, and even more important, we should step up efforts to take firm hold of saving energy, especially oil. This is another important link in whether or not we can accomplish the set goals in this economic readjustment, and is also an important matter having a bearing on the overall economic situation. It can be said that for a certain time to come, whether or not the social production will go ahead at a certain speed and whether or not the national income and financial revenues will increase steadily year by year depend to a large extent on how much work is done in saving energy, especially oil. We must realize that there is great waste in our energy utilization, and the potentials for saving energy are enormous. According to a rough estimate, at present our total consumption of energy is by and large the same as that of Japan, but our total output value is only one quarter of that of Japan. India is also a populous developing country. At present, its total output value is about half of ours. But it produces only 100 million tons of coal and consumes 20 million tons of gasoline, while we produce 600 million tons of coal and consume 80 million tons of gasoline. They produce much less coal and consume much less gasoline than we do. While the supply of energy is strained, a great quantity of energy is wasted. This situation must certainly not be allowed to continue. We should have a sense of urgency about this; starting with the strengthening of management and technical transformation, we should promptly adopt administrative,

economic and legislative measures to set about our work. It is necessary to establish and perfect various management systems for energy, formulate and strictly implement advanced and rational energy consumption quotas, firmly grasp the transformation of backward equipment and technology and restrict the production and import of tools and machines which consume oil. At the same time, various decrees and statutes must be formulated as soon as possible and strictly implemented.

Third, do a good job in the readjustment and reorganization of existing enterprises and technical transformation. Investment in capital construction is required to be greatly reduced during this economic readjustment, and will not increase much for several years to come. Therefore, the development of social production relies mainly on bringing the role of the existing enterprises into full play. This is the only way for us to improve economic effect, and is also our hope for accomplishing modernization. At present, we have had several hundred thousand industrial enterprises, of which several thousand are large and medium in size. Owing to the irrational structure, low level of specialization and backward techniques, many enterprises have become "Kelang pigs" whose potentials are far from being tapped. On the basis of reorganization and establishment of joint undertakings, it is imperative to promote the renewal of equipment renewal and technical innovation, strengthen the training of the workers and staff and notably improve the level of business management and production techniques in a planned way and step by step. Only in this way can we ensure steady increases in production with small increased investment and gain better economic effect. Hence the whole economy will turn onto the right track.

Fourth, rationally distribute and use investment and improve economic effect. Whether or not productive capacity which is urgently needed by society can be formed with less investment and shorter time is the key to ensuring the long-term and steady advance of social production after investment in capital construction is curtailed. The improved economic effect will be of great use in freeing the necessary funds for technical transformation of existing enterprises and strengthening the construction of weak links. So, the curtailment of investment in capital construction does not mean that all capital construction projects should be cut back; on the contrary, it sets higher requirements for the planning and management of capital construction. With regard to the various links ranging from the distribution of investment, the definition of items, and the design of projects to the organization of production, measures should be adopted to strengthen and improve the work of capital construction, shorten the construction period, ensure the project quality and lower project costs.

**This Readjustment Requires Economic Construction to Extricate Itself From the Shackles of "Leftist" Ideas and Methods and Get Onto the Correct Track Suited to China's Actual Situation of Healthy Development.**

Although the readjustment carried out in 1961 corrected the "leftist" mistakes in practical work at that time and brought rapid recovery and development to the economy, restricted by the then historical conditions, no conclusions that should have been reached were drawn ideologically and theoretically, with the result that as soon as the situation turned better, the "leftist" principles and policies were carried out again. The current readjustment is quite different. It is being

carried out when we have summed up the historical experiences of economic construction and set forth the task of freeing our economic work from the shackles of "leftist" ideas, and all measures for readjustment are based on the premise of correcting the guiding ideology for economic work. This is the most fundamental hallmark for saying that this readjustment is a sober and healthy readjustment.

Looking back at economic construction over the past 30 years, we have gained great achievements but we have also undergone many twists and turns and paid a very high price. The reason for these twists and turns is mainly that from the angle of the guidelines for our economic work, we lacked comprehensive and profound understanding of China's fundamental actual situation and were impatient for success, thus committing "leftist" errors time and again.

Our country was poor and blank with backward production and low living standards. After the victory of the revolution, we were all eager to develop the economy at high speed and build China into a prosperous and powerful country as soon as possible. This wish was rational and conformed to the demand of the people throughout the country. But precisely because the country was poor and its strength limited, we should not have been impatient for success and tried to change the country in brief space of time. However, in our past economic work, very often we gave more consideration to needs and less to possibilities and sought unrealistic high speed and high production targets. Hence, more haste, less speed.

Our economy is comparatively backward and the people want to improve their living standards. In these circumstances, we must step up efforts to develop agriculture and light industry and expand the production of consumer goods. The speed and scale of the growth of heavy industry must be based on the possibilities in the nation's strength and serve the effective requirements of the growth of agriculture, light industry and other branches. In our country, it is unnecessary and impossible to take the road by which heavy industry should be developed first and then in turn supports agriculture and light industry. But in our past economic work, we very often laid improper stress on heavy industry, and regarded the excessively high production targets of the heavy industrial products of one kind or another as the goal for developing the economy in an isolated way. In this way, the development of agriculture and light industry was seriously affected, resulting in imbalance between agriculture, light industry, and heavy industry, and a lopsided economic structure.

Our country has a huge population with a weak economic foundation and low average per capital national income. In these circumstances, accumulation cannot be too much. In developing the economy, we should exert great efforts to raise the accumulation effect; in particular, after we have built a certain industrial foundation, we should rely mainly on giving full play to existing enterprises and raising economic effect to expand social production. But in the past, we very often laid one-sided emphasis on capital construction to the neglect of production management, used to set up new enterprises with great investment but paid little attention to the improvement of business management and necessary technical innovation in the older enterprises, with the result that their technology and management skills were in a state of backwardness for a long time. This method will inevitably lead to maintaining excessively high accumulation rate and will certainly reduce the accumulation results. As a result, it cannot but affect the normal growth of



consumption of the people to cause the relationship between the economic development and improvement of living standards to become estranged, hence presenting an obstacle to the healthy development of the whole economy.

These "leftist" ideas and methods of economic construction have not only affected the economic growth rate, structure and effect but also affected the economic system. We basically patterned our economic system in the period of the first 5-year plan on a foreign model. This did play a positive role in our economic development but its drawbacks revealed themselves more and more. They found expressions mainly in the overconcentration of planning and material management and the phenomenon of "people eating from the same big pot," they affected the effort to give play to the enthusiasm and initiative of the enterprises and laborers, and caused the economy to lack the necessary elasticity and vitality. Why could these drawbacks not be overcome for a considerably long period of time? Apart from the fact that some problems were not clarified ideologically and theoretically, an important and the main reason in a certain sense is that this system was objectively suited to the requirements of "leftist" methods of the economic construction. Developing heavy industry onesidedly by concentrating a lot of finance and material resources and seeking unrealistic high speed will naturally lead to an overconcentrated economic system, which will in turn encourage subjectivism, and the practice of issuing arbitrary orders and hinder the perfection of the economic structure and the improvement of economic effect.

Essentially, the problems we are going to solve in this readjustment are those caused by "leftist" mistakes in past economic work and those that have to be solved for ensuring a healthy advance of the modernization program, proceeding from China's actual situation. During the period of readjustment, in doing all economic work, we should practice the principles of putting the stress on practical results, accomplishing what is possible and advancing in an orderly way and step by step. According to the actual economic conditions, we should readjust the economic growth rate and proportions; we should shift the focus of our work from mainly hinging our economic development on increasing investment, energy and raw materials in large quantity to mainly hinging it on giving full play to the role of the existing enterprises, carrying out necessary renewal of equipment and technical innovation, raising economic effect, reducing consumption, improving efficiency and paying attention to economic results; under the precondition that reforms should be subordinate to readjustment, we should enthusiastically carry out reforms the economic system which benefit readjustment, with the result that while strengthening centralization and unification macroeconomically, we should invigorate those fields which should become more lively microeconomically. All this is not just aimed at overcoming the difficulties arising in the current economy and extricating the economy from its potential dangers; it is a necessity for insuring long-term and steady advance of our economy in future. Of course, these problems cannot be completely solved in this readjustment period. In the future, we should continue to do our work according to the new situation. However this readjustment is undoubtedly a new beginning, and a turning-point of profound significance. Precisely in this sense, we say that this readjustment is not retreat but progress. Through this readjustment, our socialist modernization program certainly will get onto the correct track of healthier development and achieve new victory in its steady march forward.

## ECONOMIC PLANNING

### SHANDONG VICE GOVERNOR OUTLINES 1981 ECONOMIC PLANS

Jinan DAZHONG RIBAO in Chinese 25 Mar 81, p 1,2

[Excerpts from speech by Shandong Vice Governor Zhang Jingdao [1728 2417 3614] to the Sixth Session of the Standing Committee at the Shandong Fifth People's Congress on 18 April 1981: "A Report on the Economic Plans and Financial Administration Budget for 1981"]

[Text] Committee Members: In November of last year the Third Session of the Fifth Provincial Congress adopted in principle our provincial 1981 arrangements for the national economic plan and financial administration budgetary estimates. After the Central Committee Work Conference, the All-China Provincial Governors, Mayors and Autonomous Region Chairman Conference and the All-China Planning Conference, our Provincial Committee held a work conference to discuss and determine Shandong's economic adjustment tasks for 1981. In mid-February the provincial government convened an All-Province Planning Conference to make initial arrangements for our province's national economic plans and financial administration budget. According to the resolution passed by the Third Session of the Provincial People's Congress I submit the following material to the Sixth Session of the Standing Committee for examination and approval.

#### 1. The Implementation of the 1980 National Economic Plan

In 1980 economic conditions in Shandong were much like those throughout the nation, that is, good conditions rarely seen since the founding of the nation. The broad provincial cadres and masses under the leadership of all levels of party committees and the government sincerely worked to implement the line, direction and policy formulated by the Third Plenum of the Party's Central Committee, continued to carry out tests in adjusting the national economy and reforming the economic management system, made secure progress in overall economic adjustments, over-fulfilled industrial and agricultural plans, and attained new achievements in all enterprises.

The broad countryside made progress in implementing the Party's series of appropriate agricultural policies, implemented all forms of production responsibility systems, stimulated the broad peasants' enthusiasm for production, and overall achieved bountiful harvests in agricultural production. Total foodgrain production was 47.68 billion jin; total cotton production was 10.74 million dan, double the highest previous production level; total peanut production was 28.08 dan, 2.43 million dan higher than the previous production total; there were improved harvests of flue-cured tobacco, bluish dogbane and other economic crops, as well as major developments in forestry, animal husbandry, side-line occupations, fishery and diversified operations. The entire rural economy is quite lively and shows flourishing conditions.

On the front line in industry the policy of adjustments has been carried out, there is accelerated development of the light textile industry, great savings in energy resources have been made, there has been an emphasis on the development of potential, on renovation and on transformation. Throughout the process of adjustments industrial production has maintained a fixed rate of increases. The province's total production value was 32.285 billion yuan, an 8.4 percent increase over last year. The rate of increase in light industry was speeded up by 18.3 percent over last year. The proportion of light industry increased from 46.7 percent last year to 50.9 percent this year. There were relatively great increases in the availability of a number of important livelihood consumer goods. The number of television sets and radios was more than doubled. There were 30 to 40 percent increases in the availability of chemical fibers, candy, shoes, clothes, iron furniture, sewing machines, bicycles, watches and thermos bottles. Clear-cut results were obtained in improving the quality and variety of products, reducing waste and in making up deficits and in increasing surpluses. Some adjustments in basic construction were made according to the need for shortened battle lines. Good results were obtained in production start-ups to make up for the past neglect of livelihood needs. Total investment throughout the province reached 2.65 billion yuan. The adjustment in production-style construction was from 82.4 percent in 1978 to 73.9 percent. Non-production-type construction rose from 17.6 percent to 26.1 percent. The province has 3,179 building projects costing over one hundred thousand yuan, 2,162 already completely or partially in production. Construction projects costing over one million yuan have already been reorganized, with 112 no longer receiving assistance, a savings of 400 million yuan of investments.

In terms of revenues and expenditures and financial administration, in carrying out the national steps to make adjustments and reforms and to reduce revenues and increase expenditures even more than last year, we have increases in revenue and decreases in expenditures. At the time of the Third Session of the Fifth Provincial People's Congress it was predicted that there would be revenues of 4.86 billion yuan but actual income was 4.88 billion yuan, 326 million yuan less than the adjusted prediction made by the Central Committee but 3.5



percent higher than last year. The predicted expenditures for financial administration (including aid transferred from the Central Committee and the balance of last year's funds) was 2.988 billion yuan while actual expenditures were 2.915 billion yuan, a decrease of 7.8 percent from last year. For that year the entire province was 187 million yuan in the red.

The rural markets are very active and foreign trade continues to expand. Retail sales of commercial items increased by 16.4 percent over the previous year and of this retail sales of local consumer goods increased by 19.4 percent. The total value of purchases of export items increased by 18.7 percent over last year and the total value of exports alone increased by 35 percent over last year.

There were new developments in educational affairs. Higher education enrolled 14,402 students, middle schools enrolled 28,137 students and tech schools enrolled 15,815 students, which in all cases was higher than last year. A certain amount of progress was made in restructuring middle school education and there were improvements in the quality of teaching in higher, middle and elementary education. New research results were obtained in science and technology. The more important of them numbering 868 experiments. There were developments in culture, health, physical education, journalism, broadcasting and publishing. According to statistics from the Birth Control Department the rate of natural population increase declined from 10.79 per thousand to 7.03 per thousand.

There was continual improvement of the people's livelihood. Because of the bountiful harvests in agriculture the income distributed by the collective to the commune members throughout the province averaged 105 yuan, an increase of 23.5 yuan over last year. In the four north-western districts, because of implementation of the principles of suiting measures to local conditions and proceeding from reality, superior conditions in the cultivation of cotton were attained and the commune members' income was greatly increased, with quite a few commune members doubling their income. The average income of staff and workers in state owned enterprises reached 775 yuan, 111 yuan higher than last year. The average income of staff and workers in collective owned enterprises also had increases. Urban employment continued to expand and 300,000 people are employed throughout the province. There were continued improvements in staff and worker housing. Work was completed on another 3.79 million square meters of housing and a large number of urban staff and workers moved into their new homes.

During the last year our province achieved great success on the economic front and conditions are very good. Our practice proves that the line, direction and policy formulated by the Party Central since the Third Plenum are entirely correct. Nonetheless, beneath these good conditions there also exists a number of serious problems and hidden dangers. The major ones are as follows: For two years financial administration has been in the red, excessive amounts of currency have been put into circulation, market prices are not sufficiently stable, there

is a deficit in the sales and purchase of foodgrains and an energy shortage. These problems have been building for a long time. For many years, under the leadership of "leftist" ideology we pursued high quotas, rapid advances and high accumulation. The additional destruction caused by Lin Biao and the "gang of four" brought a serious lack of harmony to the national economy. Ever since the Third Party Plenum our understanding of the Party's policy of adjustments to the national economy has been inadequate and it has not been forcefully implemented. In some cases we were eager to obtain results and did not proceed according to our provincial conditions but rather continued some operations which exceeded our financial and material potential. We definitely must absorb this lesson, rectify our leading ideology in economic work, accelerate the pace of making adjustments in the national economy and realistically solve our present problems.

## 2. The Task of Adjusting the National Economy

The Central Committee Work Conference summed up our experiences in national economic construction, analyzed our present economic situation, decided to take steps in implementing economic adjustments, and decided to take steps in implementing a major political policy of stability. After this period of study we deepened our understanding of this policy and came to realize that it is the only correct policy for our current national economics and politics. Only by energetically implementing this policy and by thoroughly carrying out the adjustments to the national economy can we achieve a reversal of the serious lack of harmony in the national economy, eliminate the hidden dangers, take the initiative, use the new foundation to achieve production force developments, and use the basis of production developments to make advances in improving the people's livelihood and securing a peaceful, unified political situation.

In order to carry out the adjustments to the national economy we must first correct the guiding ideology in our economic work, eliminate the long-term influences of "leftism," and truly achieve an enlightened, healthy adjustment. This requires that we make sufficient retreat where retreat is called for and make positive advances where advances are called for. Initially, there is a greater need for retreat. The goal of retreat is to achieve balance in financial administration, credit and loans and goods and materials, reduce the shortage in market supplies and reduce the unfavorable balance in foreign currency revenues and expenditures, reduce all expenditures in financial administration to a level which our present financial strength can support, reduce production of overstocked industrial products, and control the development of processing-type industries. There are some industries which have no production duties or have no markets for their products. Others are wasteful, have low quality products, have suffered long-term losses or have poor economic results. Still others duplicate existing production or have unreasonable layouts. All of these should be shut down or merged, with emphasis on mergers. While these adjustments are being made we should adopt a

positive attitude, strive to develop production and give support where it is deserved. We must securely grasp agricultural production and use last year's foundation of abundant harvests to continue to promote stability and achieve all-round abundant harvests. We must thoroughly grasp the production of light industry products and other consumer goods and exert all possible strength to achieve an improvement in the balance between commodity supply and the purchasing power of society. We must firmly grasp production and savings in energy in order to guarantee the increased energy needs during the adjustments to the economy. We must give prominence to grasping increased production and increased revenues in order to guarantee the planned revenues in financial administration. There must be continued developments in science, education, health and culture.

In 1981 the national economic plan and financial administration budget were formulated according to the requirements of these adjustments. In comparison with last year, the goals show both increases and decreases. In setting goals for agricultural production consideration was given to influences by natural conditions and relatively great amounts of leeway were given. In setting production goals for consumer goods consideration was given to market demands and room for relatively great increases was given. Rather large reductions were made for heavy industry products which are overstocked. The goal in financial administration revenues and expenditures was fixed rather closely. In making these arrangements we held to the following principles:

(1) Proceed on the basis of one's strength and suit expenditures to income. This is the major policy which must be followed in developing our national economy. In the past, under the leadership of leftist ideology we departed from conditions in our province, spoke only of needs, ignored our actual potential, sought after size and speed, rushed to achieve results, exceeded our financial and material strength and made forced attempts to achieve things which were then impossible. In the end we were unable to achieve the desired speed and had bad results. In the present adjustments we must have an eye to the future and look back on the past, make all-round arrangements and eliminate all present hidden dangers. We must also make sure that in the years to come the national economy will be able to make gradual progress. Our plans and arrangements must proceed from these overall requirements, be realistic and do only those things within our capability. In developing our endeavors we must not exceed our material and financial strength or make overly high demands.

(2) Reduce accumulation and guarantee consumption. The ratio of accumulation and consumption is the most important one in the national economy. The reason why we had problems in economic construction for so many years was mainly because of disruption to the normal ratio of accumulation and consumption. When there was excessive capital construction and when accumulation was too high consumption was then squeezed out. The key factor in adjusting the national economy is to reduce excessively high accumulation and reduce capital construction and make suitable increases in the ratio of consumption. During the



period of adjustment what then do developments in each endeavor rely on? They primarily rely on complete utilization of the present foundation. Industry relies on the developing of potential, renovation and transformation and on reorganization and unification to make the structures more reasonable. Agriculture relies on policy and on science. In all else there must be reliance on utilization of the present conditions and on complete utilization of all potential. We definitely must reform our past practices of suggesting developments and then setting up projects, opening up shops and carrying out capital construction. In guaranteeing consumption we must also consider the potential of our national revenues. Continual improvement of the people's livelihood is a policy of our government and party. Raising the level of consumption and improving livelihood must be based the foundation of production developments. China is still a relatively poor country and must continue its superior tradition of struggling against hardship.

(3) Speed is subordinate to the adjustments. During the period of adjustment, in some areas there must be retreat while in others there must be advances. All arrangements under the plan must firmly seek the truth and be realistic. We can no longer set high goals nor make big plans and use up all available strength to grasp the moment. There must be adjustment, reorganization and rectification of the existing enterprises. This year the planned total production value in industry and agriculture is set at 46.2 billion yuan, a 1.8 percent increase over last year. The total production value in industry is 37.9 billion yuan, an increase of 2 percent. The total production value in agriculture is 13.3 billion yuan, an increase of 1.3 percent. The planned goals for each locale must proceed from their own realities and must be realistic.

(4) Excel in production by any means whatever. Making adjustments does not mean to be negative and retreat on all sides. The adjustments also demand that we grasp production of social necessities and grasp production where conditions are good. Whenever objective conditions permit and when expenditure of effort can complete production tasks we must firmly grasp conditions and ensure their completion. We must give vent to positive factors rather than emphasizing negative factors and be discouraging. Only by grasping production, especially the production of consumer goods, and by increasing the financial administration revenues can we stabilize prices, improve the people's livelihood, overcome the present difficulties and guarantee political stability.

(5) Seek economic results. The key to whether the work in making adjustments succeeds or fails is whether or not we can make a big improvement in achieving economic results. From now on we can no longer follow that old road of high speed, high accumulation, low efficiency and low consumption. Rather, we must follow the road of less speed but with relatively more national income and social wealth, relatively better economic benefits and relatively more concrete benefits for the people. In order to make progress in adjusting the economic

structure and the commodity structure we must arrange our plans and organize production according to social need. Capital construction must pay close attention to the results of its investments. This now suffers from severe waste as great amounts of investments are unable to form fixed assets and of those able to form fixed assets some are unable to produce effective results. Such conditions must be changed. During the period of adjustment we must make an effort to rectify these enterprises and give them good management. All leadership organs and all economic units must concentrate their energies on grasping economic accounting, reducing waste and improving economic efficiency.

### 3. The 1981 Planned Arrangements, Financial Administration Budget and Major Actions

#### (1) Strive for Balance in Financial Administration Revenues and Expenditures

For this year the state has set our task in financial administration revenues at 5.154 billion yuan, a 7.2 percent increase over last year. Of this, the local revenues of 2.574 billion yuan present a very difficult task. Last year our financial administration revenue plans were not very successful and this year we have the added responsibilities from the Central Committee and purchasing bonds in the national granaries. So the entire province is in rather difficult financial circumstances. The districts have only 1.9 billion yuan in expenditures which can be allocated, 21.5 percent less than last year. The arrangements for major expenditures are as follows: Maintenance fees for capital construction and stopped or slowed-down construction projects cost 172 million yuan; circulating funds 40 million yuan; agricultural support expenses 247.32 million yuan; health, education and culture expenses 787.54 million yuan; urban maintenance fees 100 million yuan; administrative expenses 289.41 million yuan; other expenses 264.07 million yuan.

Problems in financial administration influence all other major efforts and the major task in the adjustments is to balance revenues and expenditures and not go into the red. All levels of leadership must pay attention to this matter. The State Council recently issued GUANYU PINGHENG CAIZHENG SHOUZHI, BIANGE CAIZHENG GUANLIDE JUEDING [A RESOLUTION ON BALANCE IN FINANCIAL ADMINISTRATION REVENUES AND EXPENDITURES AND ON STRICT FINANCIAL ADMINISTRATION MANAGEMENT]. We must sincerely and thoroughly implement this resolution. We must actively open up financial sources, energetically increase income, make progress in developing increased savings, improve enterprise management, strengthen economic accounting, give prominence to grasping production and increased revenue in industrial enterprises, use all possible means to decrease costs and losses and transfer taxes and profits. We must rectify tax losses, tax avoidance, financial administration subsidies and profit retention, strengthen the unified management of tax revenues, gradually reduce the scope of financial administration subsidies to enterprises and reduce the total amount of subsidies. Enterprises which have implemented experimental

expanded authority over profit retention must retain profits in the ratio established by the State Council and the province. Those enterprises which implemented a profit (loss) responsibility system and whose profits exceed or losses are below the amount due the state cannot receive less than 60 percent. The other enterprises will continue to carry out the enterprise funding system. There must be vigorous attempts at savings in order to strictly control financial administration expenditures. The principle for budgeting expenses on all levels of financial administration is that expenditures are tied to income and there can be no deficit budgets. The reduced level of expenses must be carried out by the units. They must carry out the budgetary payment system and should retain any surplus funds. There is no compensation for overspending. There must be promotion of national construction, strenuous struggle and great savings in all expenditures. There must be strict control over personnel organizational forms and a reduction in all forms of conferences and publications in order to guarantee that the expenditure limits will not be exceeded. There must be strengthened financial administration oversight and strict enforcement of financial and economic discipline. The province, districts and counties must be on their guard, prevent all sorts of "embezzlement, and criminal activities," and not accept any excuses for reduced income or reduced expenditures. Serious offenses of financial and economic discipline should be severely punished and where conditions warrant there should be economic as well as legal punishment. As for the duties regarding the central committee, the financial administration loans and the state granary bonds, each department and district should observe the general situation and gradually carry out these tasks to ensure their success.

While energetically striving to achieve a balance in financial administration revenues and expenditures there must be strict loan and credit management, a strictly maintained balance between loans given out and repayment of loans, energetic control to see that loans are properly used and promotion of enterprise adjustments. In order to strengthen loan management the State Council decided to exercise strict controls over the issuance of loans and we must strictly enforce this decision. Agricultural loans which promote foodgrain production by increasing production quantities and the rate of production are to be given priority. At the same time, support should be given to the development of economic crops and diversified operations. Loans to industrial and commercial enterprises must adhere to the principle of "dealing with each case on its merits and supporting what is best." This means that aid will go to those enterprises which have good economic results. Middle and short term equipment loans, loans to support light industry and loans to energy conservation must strictly adhere to the regulations. Loans should be primarily used to uncover potential, renovate and transform existing enterprises. They should not be used to engage in capital construction and certainly must not be used to duplicate construction or existing arrangements.

(2) There must be Sufficient Reductions in Capital Construction



The state has determined that this year our province would have one billion yuan of capital construction. Of this, 342 million yuan is to be used on the local level, first going to education, health, science and technology, urban construction and staff and worker housing and then going to construction in agriculture, energy and transportation. There are no new production-type projects and the tendency to construct large buildings has been halted. In this spirit, the budget calls for 142 million yuan on the local level with 49.84 million yuan allocated for agriculture, a 56.2 percent decrease from last year's plan. Industry has 10.25 million yuan, a 58.2 percent decrease. This will primarily be used for construction of schools and institutes attached to the industrial departments and to finish up a small number of production-type investment projects. Commercial grain trading received 7.71 million, a 47.9 percent reduction. Urban construction and staff and worker housing received 14.9 million yuan, a reduction of 35.2 percent. Science, education and health received 35.88 million yuan, a 21.5 percent reduction. The district arranged for 200 million yuan, the provinces arranged for 110 million yuan and the cities arranged for 90 million yuan.

The scope of this year's capital construction does not include investment by collective ownership units. To prevent aimless construction the provincial government decided to issue a directive controlling capital construction by collective ownership units. This is to be carried out by the districts and the cities. Production type projects must be reported to the provincial planning committee for examination and approval and other projects should be reported to the district and urban planning committees for approval. After two years of adjustments and construction of staff and worker housing much work remains undone. In a number of units the housing shortages are becoming quite serious. Nonetheless the housing shortage in factory enterprises and other basic level units is even more severe. This year, investment in housing construction must first take care of factory enterprises and other basic level units. Leadership organs on all levels must firmly grasp housing construction. Housing construction is directly related to staff and worker livelihood and to peace and security in society. From now on, economic adjustments should pay full attention to this problem.

Capital not included in the budget should be put to rational use. In recent years the provincial and district levels both used capital not in the budget to carry out capital construction projects. This year only 200 million yuan of capital not in the budget will be used for capital construction. The other capital cannot be used for capital construction without state permission. Such capital will first be used for purchase of state granary bonds, will secondly be used for state approved projects such as the renovation of enterprise equipment, technological reform, energy conservation, improvement of working conditions, environmental protection, and production safety. Thirdly it will be used for urban maintenance and for the repair and rebuilding of public facilities.

There must be cleaning and maintenance work done on construction projects which have been stopped or slowed down. Whatever level arranged for the project should take care of the cleaning. Everything which has not been included in this year's plan belongs in the category of stopped or slowed down projects and must be cleared up project by project. Construction committees and planning committees on all levels and the concerned departments must abide by the regulations of the state construction committee and planning committee. They must unite to make a common effort in organizing for the maintenance of the stopped and slowed down construction projects in order to minimize losses. They must sincerely carry out the resolution of the Standing Committee of the Fifth National People's Congress concerning financial losses to the state resulting from the shutting down of enterprises and the slowing down of construction projects. This calls for increased economic adjustments in safety work. All responsible personnel concerned with the shut-down enterprises and the slowed down construction projects must firmly guard their sentry posts, resolutely fulfill their responsibilities, correctly deal with all problems arising from accidents, and must not neglect their duties or be lax in management. The concerned enterprises must educate their staff and workers to be conscientious in maintaining the state property. The concerned counties and communes must educate their members and masses to obey the law and protect the factories. Anyone guilty of pilfering, theft or robbery of state property must be punished by the law.

### (3) Strive for All-Round Bountiful Harvests in Agriculture

Good results have already been obtained from adjustments in agriculture. There has been a major change in the proportion between foodgrains and economic crops. Economic crops, which for so many years were in a state of limbo, have made a comeback and the proportions in agriculture, forestry, animal husbandry, side-line occupations and fishery have been improved. These adjustments were necessary. Unless there is development of economic crops the people cannot have an abundance. However, our province has a population of 73 million people and providing food is the priority demand. The development of economic crops is based on the premise of self-sufficiency in foodgrains and foodgrain production is therefore the number one item. This year we must continue to strengthen agriculture, make all-round developments in agriculture, forestry, animal husbandry, side-line occupations and fishery and struggle to achieve all-round abundant harvests. There is an overall need for stability, consolidation and improvements. First is a stable policy. There must be a guarantee of stability in such economic policies as state purchases, distribution, prices and rewards rather than arbitrary determinations and frequent changes. Cotton policy should be implemented according to the regulations made by the State Council. Second is to stabilize the present systems and the various forms of production responsibility systems rather than continually attempt to improve them. Third is to stabilize the planned crop acreage. Grainfield acreage should be stabilized at 80 million mu, cottonfield acreage should be stabilized at 9.6 million mu, peanut field acreage at 9.5 million mu and tobacco acreage at 1.35 million mu.

Cadres and the masses should be educated to proceed according to the overall situation and to follow the cultivation plan established by the state. In order to guarantee increased stability in foodgrain production the provincial government has decided that starting this year it will implement on the district and urban levels the management of margins in food grain sales and purchases and will operate on a system of allocated responsibilities. There should be active development of forestry, animal husbandry, side-line occupations and fishery and suitable diversified management in order to increase the income of the the collectives and the commune personnel. The masses must be motivated to carry out large scale afforestation throughout the whole province. We must sincerely carry out the Forestry Laws, thoroughly implement forestry policies, severely restrict unauthorized cutting and control damage to the mountains and forests. Animal husbandry should be strenuously developed and grass fed cows, sheep and rabbits should be quickly developed.

#### 4) Greatly Increase the Production of Light Textile Products and Other Consumer Goods

After last year's abundant agricultural harvest and the two years of adjustments conditions for developing light textile industry production were better than at any previous time. We ought to make full use of these beneficial conditions and strive to increase production. According to the plan the production value in light industry throughout the province is 17.9 billion yuan, a 9.8 percent increase over last year. In the state plan for commodities our province had increased production responsibilities for 18 items including cigarettes, bicycles, sewing machines, watches, clocks, television sets, plastic goods, furniture, hides, leather shoes and cotton yarn. The increases in production are relatively large and probably can increase the production value of short supply commodities by 650 million yuan. In addition, increased production should be arranged for all commodities for which there exists production capability, raw materials and sales outlets. The light industry departments and enterprises should both focus their energies on grasping enterprise management, make advances in improving product quality, increase the variety of products, reduce costs, strive for good products at a low price, create even more high quality name brand products, increase the ratio of high and middle grade products and at the same time arrange for the production of good, small size commodities.

We must continue to implement the principles of the "six priorities" and support light industry production. In making plans and organizing supplies the needs of light industry for fuel, electric power, metals, wood and non-ferrous metals must be given priority. In making adjustments to heavy industry, the materials and capital that can be derived through a reduction of capital construction should primarily be used in light industry production. The entire province should have overall planning for important agricultural product raw materials to first guarantee the needs of the cities and the enterprises with good production conditions. For certain raw materials in short supply there



must be market adjustments, efforts at savings, organized cooperation and adequate imports to achieve a positive solution. Shandong now has over 10,000 light industry enterprises and they are a major force. We must make full use of this foundation with planned, focused and gradual progress to utilize potential, renovate and transform. We must make adjustments in the light industry departments, organize and unify, reduce duplicate production and broaden the production forces for commodities in short supply. At the same time, we must organize the machinery and war enterprises that have inadequate responsibilities to make use of our existing capability, to produce consumer items which are in short supply and more adequately provide for market needs.

#### (5) Sincerely Grasp Both Conservation and Increases in Energy Resources

Energy shortages are a prominent contradiction in the national economy, not only for the present but also for a certain amount of time in the future. We must implement a dual policy of both developing and conserving energy, with the current emphasis on conservation. The coal and oil industries must continue to adjust the proportions of their mining, pumping and storage in order to correctly grasp this year's production. Developments in mining not only guarantee the tasks in construction which the state has decided upon, the 31 billion yuan of planned investment in local coal mines will in part emphasize the continued construction of and investment in provincial oil wells and small-scale coal mines. The state plan has set this year's production goals for Shandong at 40 million dun of coal, 17.2 billion dun of crude oil and 1.2 billion square meters of natural gas. These tasks are related to the overall picture for our province and the whole nation so we must mobilize the cadres and the masses to guarantee its completion.

The state plan sets the electric power quota at 20.5 billion kilowatt hours. Regarding the allocation of electric power, production use electrical power for light industry and other consumer goods should be guaranteed and livelihood need for electricity for urban people should be guaranteed. All possible efforts should be made to increase electrical power for agricultural use. All places which have conditions for electrical irrigation should implement it and there should be a corresponding decrease in the area's supply of fuel oil. Regarding the construction of power plants, except for Shiliquan Power Plant which will continue to be built according to the state plan, the province will continue the planned construction of the Huangniao Power Plant and strive to finish it within the year. Agricultural electricity should be developed according to the plan. This year the plan calls for capital construction investment of 8 million yuan in agricultural use electricity, which will primarily be used to construct underground lines. Agricultural use electrical lines below the county level of government will have other arrangements.

All businesses, enterprises and units must make great efforts to conserve coal, oil, electricity and water and take positive actions to reduce energy consumption. Factory and mining enterprises, especially those which have high levels of energy consumption, should

develop technological reforms which conserve energy, make planned renovations of equipment which consumes large amounts of energy and reform production techniques which consume large amounts of energy. In addition to guaranteeing the successful completion of those energy conservation reforms and actions planned by the state, state and industry capital for uncovering potential, renovation and transformation should first be applied in these areas.

#### (6) Industrial Adjustments should Emphasize the Machine Industry

Although there has been considerable work done in industrial adjustments and reorganization in Shandong province and although a certain measure of success has been achieved, nonetheless it must be said that there have been insufficient overall adjustments. In some heavy industries with oversupplies, especially in processing industries, there are great difficulties in making adjustments and in reorganization. If we do not resolutely undertake adjustments, conditions will then become increasingly passive. Although light industry has been somewhat strengthened in the adjustments, there nonetheless still are problems with blind developments and duplicate construction which also require adjustment and rectification. Throughout all industry we must break down the barriers that exist between the different industries and the different areas, implement professionalization, cooperation and unification and carry out major adjustments and reorganization.

Adjustments to the machine industry is the focal point of all industrial adjustments. In recent years Shandong's machine processing industry has developed relatively rapidly, but production capability for some products has exceeded society's present needs so that a great many enterprises do not have adequate responsibilities and are in a state of halted or semi-halted production. Many machine enterprises are right now striving to overcome difficulties, open new avenues, search out new duties, retool to produce consumer goods and actively increase production. Such an attitude should continue to hold sway. In arranging the adjustments and production responsibilities for the entire machine industry, however, we must take a broad economic overview to suit the nation's needs in economic adjustments. We must carry out adjustments and exert controls over production in such petroleum consuming areas as internal combustion engines, tractors and the automobile industry. The planned arrangements can only guarantee needs in normal replenishment and additional supplies for areas suffering from shortages. Adjustments to the machine industry are of a large scope and have relatively complex conditions and these conditions must be handled in different ways: (1) Products which have suitable sales outlets or which can be exported should undergo organization of specialized cooperation and unification in order to carry out proper production. We should pay attention to making advances in product planning, improving product quality and in greatly broadening our exports. (2) Products which do not suit social needs should adjust their production direction. Some should turn in the direction of technological reform of old enterprises or in performing

energy conservation measures. Some should turn toward providing technology and equipment for light industry. Some should turn toward the production of consumer goods for which there is a market need. (3) Those core enterprises which temporarily have no duties or have insufficient duties but which from a long term view must be preserved can be preserved by stopping production and engaging in staff and worker training, engaging in scientific research, experimenting with new products or in improving their technology reserves. (4) Those enterprises which do not currently have duties and which from a long term point of view are not needed should halt production and change their direction.

Those small scale steel mills, fertilizer factories and power plants which consume large amounts of energy should resolve to restrict their production duties. Small scale enterprises which duplicate production, have unsuitable arrangements, and which compete with large enterprises for raw materials and energy and which have unsatisfactory economic results should also undergo adjustment and rectification.

#### **(7) Make Realistic Market Arrangements to Guarantee Basic Price Stability**

In 1981, there still is a considerable discrepancy between the province's social commodity buying power and the quantity of commodity supplies. The market needs are great while the commodities are few and this directly affects price stability in the marketplace. In order to increase market place supplies of commodities, in addition to strengthening production of consumer goods, we should also take the following actions.

1. Greatly reduce the purchasing power of social groups. In 1980 the purchasing power of social groups actually exceeded 1.2 billion yuan. This year the figure should be reduced by one third.

2. Take inventories. All commercial enterprises, foreign trade enterprises, suppliers and goods and materials departments as well as all enterprise units and organization groups should undertake a major inventory to supply the markets with commodities. The commercial departments, except for a small number of warehouses which keep important national planning livelihood commodities, should offer most commodities for sale, including a number of scarce items such as watches, bicycles, sewing machines, television sets and radios.

3. Make arrangements to use a portion of local foreign currency to import certain short supply consumer goods.

4. Operate various food and drink businesses, service businesses and increase the showings of movies, plays and other cultural activities in order to absorb more of the purchasing power.

5. Arrange for certain amounts of steel and concrete to process pre-fabricated parts to supply peasant housing.



By implementing these actions there can be a great reduction in the differential between the social purchasing power and the quantity of commodity supplies. Nonetheless there still will be a certain differential so we must explore all avenues to increase the supply of products, strengthen the planned allocation and transfer of commodities, strictly control the amount of currency put into circulation, actively carry out urban and rural savings and tighten up the money market in order to stabilize the marketplace and thus achieve basic stability in prices.

Prices are a major topic and are related to economic stability and social peace. At the end of last the State Council issued a memorandum which initiated strict price controls and rectified price negotiations. The provincial government issued eight regulations which stabilized prices and undertook a major investigation of prices. The trend in price increases was halted but the basic factors which influenced price instability still have not been eliminated. We must take steps to strengthen price management, rectify buying and selling negotiations, rectify self-sales and display sales by industry, rectify the scope of enterprise management, strengthen market management and price observations, attack speculation and profiteering activities and gradually resolve some of the problems related to irrational price determinations. The provincial government recently acted in accordance with the spirit of the directive by the State Council and unified concrete conditions within Shandong province, issued a communication regarding the strengthening of market management and the attack on profiteering and speculation, formulated temporary regulations to control prices and rectify price negotiations in order to guarantee stability of market prices, and suggested concrete demands and methods for the rectification and management of agricultural side line product prices, the prices for daily use industrial products, production material prices, non-commodity receipts and food and drink prices.

#### (8) Work Hard to Organize Foreign Trade

For 1981 Shandong has a planned overall commercial export value of 2.44 billion yuan, an increase of 330 million yuan over the 1980 planned figures. Foreign trade must pay close attention to economic results, the foreign trade departments must strengthen their accounting, reduce the key links, improve managements, reduce costs and improve the rate of exchange.

We must realistically manage and utilize local foreign exchange. Except for funds for turnover expenses and for solving certain somewhat difficult foreign goods payment problems, the majority of the local foreign exchange should be used to import light textile raw materials, urgently needed materials and advanced equipment and tools for agriculture, and to import certain consumer goods which have market shortages which withdraw currency from circulation and which will not adversely influence provincial production. This will strengthen the relationship in commodity supply and demand and will make up for import losses.

#### **(9) Properly Handle the Balance in Goods and Materials**

The balancing and allocation in goods and materials must be based on the needs of economic adjustment. Reduce the allocation to heavy industry and to basic construction, protect light textiles, protect the markets, make suitable arrangements for needs in other areas, achieve a balance in supply and demand and remedy all shortages. This year's coal allocation was reduced by 1.17 million dun, with production use reductions primarily in small scale steel and iron, small scale chemical fertilizers, small scale power plants and in small scale cement and coke production. There were increases in production use coal for the light textile industry. The allocation of steel basically retained last year's level as quantities are sufficient for the needs though there are still some shortages in a few types. Lumber allocations were reduced from last year's level and to make up the lack the province used local foreign exchange to import some of its lumber, primarily to increase production of light industry products urgently needed on the market. Raw materials for agricultural side line products should have production management to increase the overall balance. Such important agricultural sideline product raw materials as grains, cotton, oils and tobacco should be included in the province's overall plan in order to organize their allocation and utilization.

All professions and all enterprises should carry out conservation of goods and materials, strive to lower waste, carry out comprehensive utilization, conserve substitutes, try to increase production through conservation and seek to improve economic results through reduced waste. Proper work in the supply and demand of goods and materials requires that we thoroughly utilize the potential of all goods and materials, actively organize our resources or goods, sincerely carry out cooperation and market adjustment and strive to satisfy social needs.

#### **(10) Continue the Greatest Possible Development of Scientific Education**

During the period of economic adjustments all possible developments in the continuation of scientific education should be carried out. Scientific research and the spread of technology should be closely united with production in a search for effective results. Of 800 planned research projects in light textiles, agriculture, energy, new materials, chemical engineering, electronics and oceanography, a total of 76 major projects are on the provincial level. Fifty-five important research results have been spread throughout the province. All scientific research units, institutes and concerned departments should unite closely to cooperate in successfully completing the task of popularizing the results of new scientific research.

During the period of adjustments educational affairs should first strive to properly conduct higher education by defining the duties, scope, professions and structures in order to carry out scientific management. All those which have had their scope approved by the State Council generally need not be expanded. This year's plan calls for the universities and institutes to recruit 14,200 students,

which basically maintains last year's level. Middle school professional institutes will recruit 29,226 students while the general middle schools will recruit 1.46 million students, a slight increase over last year. The structural reform of middle school education requires that we sum up our experiences and make planned dissemination of them. While we are grasping higher, middle, elementary and professional education, we must sincerely grasp staff and worker education, put staff and worker education into the national economy and into the national education plan, carry out planned, gradual training of staff and workers, improve their level of political ideology, science and culture, professional duties and technology and administration and management, and produce a great number of talented people thoroughly skilled in their profession who understand modern economics, science and technology.

#### (11) Control Population Increases

During the last few years there was great success in birth control work, but right now the rate of population increase is again tending to rise. Some districts which showed decreases in the past are again beginning to show increases. Overly rapid population increase influences the speed of construction of socialist modernization and influences improvement of the people's livelihood. This is a problem which demands serious consideration. We must be relentless in our grasp of birth control work and realistically pursue it. This year the state plan calls for Shandong to have a natural population increase of 9 per thousand. We must realistically carry out this work, guarantee the fulfillment of this goal and strive to reach a rate of 8 per thousand.

#### (12) Make Appropriate Arrangements for the Urban Labor Forces

During the last few years Shandong made a great effort to properly settle the urban labor forces and from 1977 to 1980 successfully made arrangements for 875,000 people. This year the entire province must settle another 300,000 people. In settling people looking for urban employment we must realistically carry out a joint policy of introducing employment through the labor departments, voluntarily organizing for employment and personally seeking employment. We should adopt such diverse methods as follows: (1) Actively develop collectively owned enterprises and especially develop urban business, food and drink, repair and service enterprises as well as labor intensive handicraft production. These can absorb a large quantity of the labor forces. We must realistically carry out propaganda and education work to smash people's outmoded concepts in order to make them willing to organize collectives that no one else is willing to organize and willing to perform work that no one else is willing to perform. We must direct and encourage unemployed people to perform these tasks and moreover use such conditions as funding, housing and raw materials to ease these tasks. We must follow the right road in carrying out this task. (2) We must make an honest effort to use some of the urban unemployed people to fill gaps in the rural labor force. (3) We must reform the labor system. The textile industry can carry out a "four team, three shift"



system. In hot cities which are polluted and dangerous the work force can carry out a "four-six system." In some businesses and service units the number of shifts can be increased and the hours of operation can be increased, which would make arrangements for other labor forces. (4) We should work hard in getting staff and workers to retire so that all those who are able to retire will do so. In the cities those people who are already retired, except for those with special abilities, should not be allowed to accept other employment. Those who are at the head of their units or who have been assigned to other units to work should carry out ideological tasks in preparation for retirement. (5) We should operate labor service companies and open avenues of production in striving to make arrangements for urban people awaiting employment. There must be strict controls over small collective enterprises becoming large collective enterprises. The authority for such changes should be reserved by the province and there should be strict controls over it. This year there were halted enterprises and slowed-down units so a number of staff and workers were unemployed. The provincial government has transmitted the "Report Concerning Arrangements for Staff and Workers of Slowed-Down Construction Projects and Enterprises." All areas must carry out the concrete regulations found in this report in making suitable arrangements.

#### 4. Strengthen the Leadership in Economic Adjustment Work

The economic adjustment tasks now facing us are extremely difficult. In order to guarantee the smooth accomplishment of such work and sincerely carry out enlightened, healthy adjustments each level of government must strengthen its leadership of economic adjustment work, strengthen collective unity and strengthen its planned directives for macro-economics.

(1) All economic work must focus on the adjustments. The national economic plan for 1981 is a plan for great progress in making adjustments. All economic work must center on the arrangements for carrying out the adjustments and is subordinate to the needs of the adjustments. With regard to this topic we must unify the ideological understanding of the masses and the cadres, especially the leadership cadres, in correctly evaluating the situation. They must see the difficulties we are facing as well as the good conditions and positive factors for overcoming the difficult conditions and then exert their will to overcome the difficulties and make the proper adjustments. They must establish an overall concept of the conditions. With regard to some conditions, looking at them in a given district, a given department or a given unit or in looking at them from the viewpoint of micro-economics they are rational; yet from an overall view or from the viewpoint of macro-economics they then are irrational. When such conditions exist the parts must be subordinate to the whole and what should be adjusted definitely must be adjusted, where retreat is called for retreat must be made, where construction should be halted or slowed down that also must be done, and where production should be halted and changed that also must be the case. It is not permissible to adopt an attitude of resisting regulations, insincerity or laxity. All levels of government

must concentrate their energies on grasping the economic changes and unifying the control over and the pace of all aspects of the adjustments. They must deeply enter into reality, carry out investigations, immediately exert their control over new conditions, solve all new problems and guarantee the smooth progression of the economic adjustments.

(2) Macro-economics will strengthen central unity, micro-economics will make advances in livelihood. In order to carry out the economic adjustments, overcome the present difficulties, avoid creating chaos during the changes and simultaneously prevent a return to the dead ways of the past we must strengthen the central unity of macro-economics and continue to work for livelihood on the micro-economic level.

The State Council recently issued eight regulations to be implemented in making the adjustments. There are effective measures related to macro-economics which definitely must be carried out. According to the concrete conditions in Shandong province the following are of special importance:

1. Basic construction should be under the centralized management of the provincial planning committee. There should be overall balance with all avenues of funding for capital construction coming under the provincial capital construction plan. Other departments, districts and counties are not permitted to make arrangements for capital construction.

2. All financial administration, taxation and loans must be made according to the law of the and no district or department is permitted to make any arbitrary changes. Prizes and bonuses can be given only according to the national and provincial laws.

3. The price for goods must be strictly set according to the national laws and no changes are permitted.

4. Important goods and materials, including important agricultural side-line products and raw materials, must be distributed and allocated according to the province's unified plan and there is strict prohibition of the use of and goods and materials included in the plan to be retained to start up one's own plant or to increase one's own holdings.

5. There must strict controls over the migration of the farm labor population into the cities. Without provincial approval no district or unit may recruit labor from the farm villages.

While strengthening the central control of macro-economics we must take positive actions to advance the pace of micro-economics in providing for livelihood. During the past two years our economic reforms have forged a correct path and correctly carried out experimental work with good results. We must sum up our experience and consolidate the results. We must unify under the Central Committee to gradually carry

out reforms in the economic management system. The adjustments and reforms must be closely united. All reforms which are beneficial to the adjustments must be actively carried out. Reforms which conflict with the adjustments are subordinate to the adjustments. Under the leadership of the plan we must continue to make market adjustments and make full use of positivism and initiative in all areas. In agriculture we must respect the autonomy of the brigades and permit the brigades to suit measures to their own conditions, take advantage of their superiorities and make their own crop arrangements. After fulfilling their responsibilities for state purchases of second and third category agricultural side-line products, the brigades and peasants may sell the rest themselves, either to the state or in the marketplace. After fulfilling their responsibilities the industrial enterprises may increase production to suit market needs and sell a portion of their production as stipulated by the regulations. Commerce should organize the flow of goods according to economic districts, strive to broaden the avenues of the transportation of goods and reduce the excess shipping of goods. Some goods may be put up for sale directly by the ships, plants and brigades. In the cities there should be suitable continued developments of the economy under all forms of ownership.

(3) We must strengthen ideological and political work to guarantee the smooth progress of the economic adjustments. Politics and economics are unified and cannot be separated. In order to guarantee the smooth progression of the economic adjustments we must firmly grasp the four basic principles and maintain a state of political unity with the Central Committee. Not only must we protect the ideological line of the Central Committee, we must also obey the Central Committee directives in terms of organization and action and unconditionally carry out the resolutions of the Central Committee. We must make progress in resolutely studying Central Committee directives, realistically investigating the mistaken influences of "leftism" in economic work and solve our problems of ideological understanding. This is the key to economic adjustments and to putting socialist modern construction on a healthy road to development. We must concentrate on grasping the four basic principles, energetically strengthening our ideological and political work, make progress in motivating the broad cadres and masses to carry out construction of the four modernizations, drive to produce and strive to properly carry out our tasks. All levels of cadres, especially leadership cadres, must strengthen their sense of political responsibility, firmly implant the concept of whole-hearted service to the people and whole-hearted responsibility for the people, form close links with the masses, restore and develop the Yanan spirit, the revolutionary spirit of the early Liberation period and the spirit of overcoming difficulties found in the 1960s. At the same time that we are building the four modernizations we must energetically strengthen our building of socialist spirit and culture, and develop the "five concerns" and "four goods" movements, i.e., concern for culture, concern for manners, concern for health, concern for order and concern for morals and good conscience, good speech, good actions and good environment in order to make a basic change in the appearance of our



social customs and moral deeds. We must strengthen our socialist democracy and the legal system, attack any illegal activities which harm construction of the four modernizations, harm the economic adjustments and harm socialist order and thus take steps toward realizing political stability.

Fellow committee members: The 1981 national economic plan and financial administration budget are positive and can be successfully accomplished by making an effort. The task of implementing this plan is enormous and there are many difficulties. Nonetheless, we must see that conditions for adjustments this time are quite different from those conditions of the adjustments in the early 1960s. We have a great many favorable conditions for overcoming the difficulties for overcoming the difficulties. Not only is our material base much better than at that time, but even more importantly, the Central Committee Work Conference has summed up the lessons of our experiences in economic work over the last 31 years, rectified "leftist" mistakes and suggested a correct direction. The Provincial Committee Work Conference has also made concrete allocations. All that is necessary is for the people of our province to share a willingness to be realistic, develop a spirit of fearing neither pain nor death, and relentlessly carry out this struggle. By doing so we certainly can satisfactorily complete our tasks in making the adjustments, victoriously implement the 1981 national economic plan and financial administration budget and win a new victory in socialist modernization!

I submit this report to the committee members for examination and approval.

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CSO: 4006/289

## FOREIGN TRADE

### FOREIGN INVESTMENTS, MARITIME ACTIVITIES, COMPENSATORY TRADE BEING STRESSED

#### Guangzhou Builds Container Plant

Beijing CHUANBO SHIJIE [SHIP WORLD] in Chinese 15 Feb 81 p 1

[Article by Wang Lihe [3769 0448 0678]: "Compensatory Trade Aids Quick Construction of Guangzhou Container Plant"]

[Text] China's first container plant financed by compensatory trade has been built at Guangzhou Shipyard. Since the ground breaking and installation of the first pile on 15 June, 1979, it took only 14 and a half months to build 15,000 square meters of main plant building and 2,800 square meters of auxiliary plant building. Also built were public utilities, wharfs, barges, delivery platform, and material pack-house, a total of 22,000 square meters. The plant built is of good quality as it was built quickly. With four production lines and an average of one container every 12 minutes, it meets the design requirement of 10,000 containers per year. The French BV Register has conducted 16 rigorous strength tests and inspections on sample containers and made thorough technical evaluations of the workers. They are totally satisfied with the results and consider the quality of the container superior to the products of many foreign plants of similar type. The 550 containers produced in test runs late last year have now been shipped out in batches to foreign countries and put into operation. After a short period of test runs, production ability was quickly determined. The inspection team of the Sixth Ministry of Machine Building summarized their inspections made at the end of last year: "The construction speed of the container plant at Guangzhou Shipyard is the highest among the systems in the Sixth Ministry of Machine Building."

One of the reasons that this plant was built so fast and so well is the good organization and the new material and technology used in the construction. The upper structures of the main plant building and the auxiliary plant building both used light weight prefabricated steel frame structures covered by corrugated thin steel plates with zinc-aluminum alloy plating. For the outer walls, the structure at 8 feet above the ground and higher is steel wall frame covered with zinc-plated corrugated thin steel plates with painted surface. Under the roof cover and inside the wall panels, 3 inches of fiberglass insulation were installed. According to the report by departments concerned, the construction would have taken at least 2 to 3 years if conventional construction methods were used.

In the building process, the Guangzhou Shipyard and the container plant stuck to the schedule of each item of construction and took advantage of their abundant manpower. For example, in the United States the installation of the upper structure of a main building and an auxiliary building of this size would require a team of 12-15 skilled workers 120 days to finish. The Guangzhou Shipyard organized 110 shipbuilding workers to do the installation. These workers, although inexperienced in plant construction, were eager to learn and worked very hard. They finished the job in only 52 days with the guidance of American experts. According to Mr (Martin), the American expert in charge of advising the construction engineering of the plant, this speed is considered fast even in the United States. The installation and adjustment of all the equipment were done by the Guangzhou Shipyard itself.

With the joint efforts of the Chinese and the American workers, the plant reached its production capacity after only a short period of test runs. After the plant was inspected and accepted by the inspection team of the Sixth Ministry of Machine Building, Minister Chai Shufan [2693 2885 5672] also came to the plant and inspected the operation in mid January of 1981. The official opening ceremony was held on 20 January, 1981. Vice Minister of the Sixth Ministry of Machine Building and General Manager of the China National Ship Industry Corporation Liu Qing [0491 3237] attended the ceremony; unveiled the plant and gave a speech. Deputy Governor of Guangdong Province Li Jinnian [2621 1696 1344] cut the ribbon in the opening ceremony. Plant manager Yan Ming [0917 2494] of the Guangzhou Shipyard recounted the plant construction for the officials and the guests. Chairman of the board of Hong Kong Western [Xiyu] Investment Co, Ltd and Mr (Fox), President of the American CTI Corporation, also addressed the ceremony and both wished the plant successful production and further cooperation in the future. The American Consul General in Guangzhou and the Japan Consul General in Guangzhou both attended the ceremony accompanied by their wives. Some 200 invited Chinese and foreign guests from departments related to plant engineering also attended. Hosts and guests all expressed their wish for broadened cooperation in the future.

The building of the Guangzhou container plant is a cooperative project whose foundation was laid long before the establishment of diplomatic relations between China and the United States by the sincere collaboration among China, Hong Kong Western Investment Co, Ltd, and the CTI corporation of the United States. Its fruition today will enhance the friendship of the two countries and contribute to China's future technical exchange and cooperation with foreign nations and especially to the accumulation of experience in compensatory trade.

#### Shipbuilding for Exports Improved

Beijing CHUANBO SHIJIE [SHIP WORLD] in Chinese 15 Apr 81 p 2

[Article by Liu Dajun [0491 1129 6874]: "China Improves Shipbuilding for Exports"]

[Text] [Note: Hugh Stanton and his two colleagues spent 6 months in China investigating the development prospects of shipbuilding, maritime transportation and harbor construction in China. After completing their investigation, they have an overall impression that although it will be many years before China completes



its modernization plans, the advances realized in a short period of time are truly impressive and revealing. The following is an excerpt of the opinions expressed by them.)

For a long time the western world has had an interest in the enormous market in China and this interest is as high as ever. Since China adopted the open-door policy in 1977, its policy has been developing trade with foreign nations and importing technology from them. In the past 3 years China has signed a number of contracts with other countries; but due to a shortage of foreign exchange at the present time, the Chinese have made readjustments in their modernization plans. In carrying out its foreign trade, China stayed away from cash purchases whenever possible and, in general, welcomed such methods as joint investment management, compensatory trade and exchange for patent manufacture rights by negotiated terms.

If China is to achieve the goal of developing into a major ship-building and ship-repairing country in the world and receiving more export orders, it still has to adopt the proper methods and this takes time. In addition to a major effort to improve the technical level, China must also carry out improvements in planning, organization, management, system and operation.

In the past some Chinese shipyards took a self-reliance approach toward such ship equipment such as hatch, winch, upper rudder lever and propeller. Although China was once proud of this self-reliance, the results are repetitious installation, low rates of utilization and falling increasingly behind the advanced world standard. There seems to be some changes in the present practice. For instance, the China National Ship Industry Corporation has obtained the patent from li-bu-he-er for producing maritime cranes and the first batch of six cranes will be completed at the Nanjing Maritime Auxiliary Machinery Plant by the end of this year. In addition, as the ship-repairing industry continues to grow, the China National Ship Industry Corporation has also given permission and encouragement to foreign companies to begin opening service and supply offices in major coastal cities like Shanghai. This is merely the beginning as China faces the world.

Presently China has about 200 shipyards of various sizes and is capable of building a variety of ships from small fishing boats to 100,000-ton oil tankers. The annual volume of shipbuilding is estimated to be 800,000 tons. Dalian is currently constructing a 100,000-ton vessel block that is scheduled for completion next year. Jiangnan Yard at Shanghai is remodeling a 60,000-ton dock (233 meters long, 40 meters wide and 10.5 meters deep) and is expecting to finish it in 1982,.... In view of these activities, China is making an effort to modernize its shipyards for exporting large ships.

The situation at Jiangnan Yard, a shipyard with some 10,000 employees, is particularly interesting. The large steel plate forming and processing shop of this yard is impressive to visitors. Based on our crude estimate, it would not be difficult to increase this yard's production three times with some simple engineering design and appropriate modifications to its lifting and cutting facilities and the assembly and welding lines. At the beginning of this year China launched experimental rockets to the South Pacific. The advanced search and rescue vessels used in this mission were built by Jiangnan Yard. This is a credit to that shipyard and also serves as the best proof of its shipbuilding capability. Jiangnan

Yard has a long history and a sound record on ship-repairing as well; its well-equipped large machinery processing shop can satisfy a variety of needs in ship-repairing. In order to obtain the newest technology and to meet the needs of international ship owners, Jiangnan Yard has established several jointly-operated service stations. Among them are the Siemens electrical component supply and service station, the Hattapa maritime machinery repair service station, and the Sperry-Plath maritime instrument service station. A few more of these service stations, including a MacGregor hatch service station, are expected to be opened and the Chinese engineer and technical personnel will receive their training in German plants. The objective is to create favorable conditions and to provide convenience for developing a full-scale repair service.

We also visited the Hudong Yard in Shanghai, a shipyard with great strength and a record of building more than 100 different types of vessels since 1958. We were impressed by their diesel engine shop where the first batch of Pielstick medium speed diesel engines are now under production. The patent was bought from the a-er-si-tong Atlantic Company. It seems that the shipbuilders in Shanghai are carrying out a full-scale readjustment to upgrade their shipbuilding technology to the world standard.

The Guangzhou Shipyard is now capable of building 17,000 ton cargo vessels and hopes to build 30,000 ton cargo vessels after improving its facilities. This shipyard is in the process of designing an auto-elevating drilling platform that can operate at a water depth of 40 meters and has a drilling depth of 6,000 meters. The Guangzhou yard has also built a container plant with an annual production of 10,000 containers under the compensatory trade with the CTI Container Rental Company of the United States.

Besides the shipyards under the jurisdiction of the China National Ship Industry Corporation, there are also some 20 shipbuilding and ship-repairing yards under the Ministry of Communications, with a shipbuilding capacity of about 200,000 tons per year. Some of these shipyards, such as the Shanghai yard and the Tianjin Xingang yard, are also undergoing modifications to fully develop their latent capacity in preparation for the competition of building ships for exports. For instance, Shanghai Yard is in the process of producing China's first su-er-shou low speed diesel engine and expects to have it in operation early next year. The West Germany M.A.N. medium speed diesel engine, whose patent negotiations are currently underway, is also expected to be built at the Shanghai Yard. It has also been reported that Shanghai Yard may also build a container plant, with kang-te-ren-si Container Rental Company of West Germany as the investing firm and xiz-ba-te of West Germany as the plant providing facilities and training for the workers. From the compensatory trade, kang-te-ren-si will receive 30,000 containers from China in the period of 1982-1986.

More recently, Sir Bao Yugang [0545 3768 0474] of Hong Kong has reached an agreement with China National Ship Industry Corporation and Sino Yacht Chartering and Ship Broking Corporation for joint investment operation. Although the details of the joint effort (such as the volume of shipbuilding, types of ships and delivery dates) have not been announced at this moment, it is estimated that approximately six industrial carriers (27,000 to 62,700 tons according to Lloyd

Register standards) will be built in the shipyards of Dalian, Jiangnan and Hudong, all under the China National Ship Industry Corporation.

It was also learned recently that Mitsubishi Heavy Industry of Japan signed a 100 million yen contract with China on 19 August. Under this contract Mitsubishi will provide Jiangnan Yard with 2 years of technical support including assistance in improving production equipment and in the training of technical and engineer personnel. The contract was signed one year ago between Mitsubishi and the China National Ship Industry Corporation after their discussions on technical cooperation. The contract will take effect at the end of this year.

In short, all the evidence indicates that China is using building ships for exports as a driving force, through readjustment and consolidation, to fully develop her latent capacity and it is moving forward sure-footedly toward realizing modernization.

### Attract, Use Foreign Capital

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[Article by Wang Zumin [3769 4371 2404], Jiang Baoqi (5592 1405 4388] and Jiang Yiguo [5592 0001 0948]: "Attracting and Using Foreign Capital Is a Good Policy"]

[Text] In the past few years China has come out of seclusion and actively developed external economic activities. It imported a fair amount of advanced equipment and attracted some foreign capital. However, because the pace was somewhat hasty and the scale somewhat too large, it caused economic losses and to a certain extent aggravated the imbalance in the national economy. Under such circumstances, should China continue to import new technology and attract foreign capital? The answer is positive.

In this age of rapidly progressing science and technology, bringing in new technology and using foreign capital are effective means for underdeveloped nations to rapidly improve their science and technology level and production capability. In recent and contemporary economic history some economically backward nations have followed this route and reached advanced world levels in a relatively short time. The United States outraced England in the late 19th century and Japan and West Germany started up after World War II. These are notable examples. In the 1950's and 1960's China also brought in new technology on a relative large scale. This had a profound effect on changing its backward industry and technology, enlarging its production ability and filling some of the voids in its industry. Later, due to the interference and disruption of Lin Biao and the "gang of four", the introduction of new technology was forced to discontinue and China fell behind the economic and technological level of the advanced nations. Since the "gang of four" was crushed, we have abandoned the seclusion policy and, under the premise of self reliance, carried out the open door policy. This policy is consistent with the objective requirements of social and economic developments in China and is totally proper.

China is characterized by its large population, weak base, backward technology and inadequate capital. Under these circumstances, bringing in new technology and



foreign capital actively but prudently is helpful in solving the difficulties of backward technology and shortages in capital. Firstly, bringing in new technology is to start off from the advanced level of science and technology and it can accelerate the technical reform of the national economy. There are considerable portions of the Chinese industrial facility that are 20 to 30 years behind the technologically advanced nations and the gap in agriculture is even greater. If we are to feel our way without looking at foreign technology, it would surely be very time consuming. We can avoid unnecessary work and shorten the time it takes to catch up with the world standard by introducing new technologies. Secondly, new technologies will allow us to do more things with less money and will help save and accumulate more capital for the modernization construction. From research, testing, and design to production, a new technology requires a large amount of money. However purchasing the new technology and modern equipment will save costs in these areas. Moreover, when compared with similar domestic equipment, the imported equipment generally has a higher production rate and uses less raw material and energy. With this equipment joining the production line, the output will increase, costs will decrease and more capital will be accumulated for the nation. Thirdly, bringing in new technologies can promote the science endeavor in China and will be helpful in quickly building up a technical team. In the meantime, it will also facilitate the upgrading of the enterprise management level in China.

Experience shows that attracting and using foreign capital is essential but the introduction must be based on actual needs and possibilities. The principles of independence and self-reliance must be maintained and the policy of attracting foreign capital to serve the national economy readjustment must be followed. At present the number one concern in attracting foreign capital is that the scale of the technical facilities introduced must be compatible with China's national power.

The scale of introduction should first be constrained by the domestic ability to adopt the new technology. For each item introduced there should be a corresponding matching investment in the development process. Using the figures based on the large-scale complete systems introduced in the early 1970's, an average of 4 yuan of matching investment is required for every dollar of equipment brought in. A few years ago, because the "leftist" mistakes in economic directions were not checked in time, the scale of capital construction became so large as to exceed the limit of our nation's financial and material power. One of the principal causes for this is that the scale of imported complete systems of equipment exceeded the possible real needs. Importing facilities on too large a scale will invariably aggravate the imbalances in finance, credit and loan, and material supply, and the difficulties in finance and economy. It could also push back the schedule of construction, or, the imported equipment might be just stored and idling. The results have led to great wastes. Domestic matching ability also includes the raw material, fuel, and transportation power that are required once the imported items are put into operation. Therefore, advanced imported facilities that exceed the domestic matching ability cannot really develop their beneficial effects.

The scale of import must also match the ability to pay foreign debts. Much modern technical equipment is bought through foreign loans. Borrowed foreign

capital must be paid back, interest as well as principal, with foreign exchange. The annual interest of the international money market, plus various added costs, is as high as 15-20 percent. If it is not paid back in time, it will double within 6 years. If we are to borrow idle monies from the international market whenever they appear irregardless of the foreign exchange balance and ability to pay them back, the consequences are unthinkable.

Import of technology should also match the domestic technical level and management ability. Some people believe that regarding the imported technical equipment, the more advanced the better. That is actually not true. Advanced technical equipment requires people to operate and maintain a supply of parts and accessories. Some of our comrades are after the "newest" and the most "modern" and ignore the technical force and management level that are necessary for the installation, operation and maintenance. As a result, some equipment is installed and then, before long, taken apart again. We do not know how to repair it and cannot manufacture the parts and accessories. This will surely lead to a passive situation.

Import of new technology must benefit the overall balance of the national economy and its economic effectiveness must be stressed. Due to a unilateral emphasis on the priority to develop heavy industry, particularly the steel industry, these departments are weighted heavily in the import. According to statistics, out of the total imports in the last 30 years, the metallurgical industry amounted to more than 25 percent and light industry and textile industry amounted to only 12 percent, out of which light industry had only 1.4 percent and transportation and communication was a mere 0.5 percent. Agriculture imports were practically nil. Even in the last few years the steel industry and a group of particularly energy-consuming items were imported fairly extensively. It has been estimated that after the 20 some items imported in the last 2 years are put into operation, they will consume 10 million tons of crude oil, 20 million tons of coal and several million kilowatts of electricity every year. Without readjustments they will definitely aggravate the imbalance in the proportional relationship and adversely affect the coordinated development of the entire national economy. Delay or cancellation of these items are therefore the correct things to do. In the future, we should import more items that are beneficial to the development of agriculture, light and textile industries, and energy and transportation. Emphasis should be placed on serving the labor-intensive professions that require less investment, create more foreign exchange and show faster effects. Then, we will be able to improve the weak links in our national economy and the departments urgently in need of development as quickly as possible.

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